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MANAGEMENT OF NAVY RECREATION FUNDS

By

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Bachelor of Science in Business Administration

American International College, 1953

A Thesis Submitted to the School of Government and Business Administration of The George Washington University in Partial Fulfillment of the Requirements for the Degree of Master of Business Administration

June, 1968

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It is the policy of the Department of Defense to promote and to provide a well-rounded morale, welfare and recreation program to insure the mental and physical well-being of its personnel. Adequate free-time facilities should be provided, operated, and maintained through financial support tendered by the Federal Government. Nonappropriated funds will be used to supplement the cost of programs using these facilities.

U. S. Department of Defense Directive 1330.2
January 19, 1953

PREFACE

Recreation in today's United States Navy is a big business. Big business everywhere has problems in management. The Navy Recreation Program is no exception.

This paper analyzes one segment of the management problem that exists in the Navy's recreation program--financial management. The origin of the Navy recreation funds has been briefly reviewed in order to better understand the current financial management procedures. The effects of the current procedures have been analyzed and a recommendation for improved financial control has been offered.

The opinions, conclusions, and recommendations contained in this paper do not necessarily represent the opinions or attitudes of anyone officially assigned responsibility for the management of Navy recreation funds.

The author is indebted to the personnel of the Non-appropriated Fund Branch of the Special Services Division of the Bureau of Naval Personnel for their cooperation and assistance in performing research for this paper. Special acknowledgement is made to the head of this office, Mr. G. E. Brislin, for his untiring patience and encouraging attitude.

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CHAPTER I

INTRODUCTION

Research Question

Recreation funds in the Navy have experienced such a tremendous growth in size and application since their officially acknowledged importance in the early 1940's, that a current evaluation of existing management procedures is considered to be in order. The primary question considered in this evaluation is, "Will centralized management of Navy recreation funds result in more effective utilization of the total recreation funds available in the Navy?"

The following subsidiary questions are included in this management evaluation because of their bearing on the primary question:

1. What are the disadvantages of the current system of decentralized management of Navy recreation funds?

2. What are the advantages of centralization of the accounting function?

3. Can a centralized budgeting and fund allocation system be effectively implemented in the management of Navy recreation funds?

Scope of Research

Research for this paper consisted of a review of Navy files and directives, tracing the history and development of Navy recreation funds from their origin to the present. Current methods of fund management and utilization were analyzed from available records and reports. Changes in management procedures currently being implemented or studied were also reviewed. Finally, additional changes which would increase centralized control were analyzed for possible application and implementation.

Research was limited to the management of Navy recreation funds at shore stations. Recreation programs maintained aboard ships do not vary a great deal from one ship to another, and are greatly limited because of environmental conditions which do not affect shore station programs. In addition, the absence of civilian personnel aboard ship further standardizes the management of shipboard recreation funds.

Methodology

Most of the information used in this paper was obtained from the following sources:

1. Research of files, records, and directives at the Bureau of Naval Personnel, the Navy Ship's Store Office Washington Representative's Office, and the Office of the

Comptroller of the Navy.

2. Interviews with top management and staff personnel at the Bureau of Naval Personnel, the Office of the Comptroller of the Navy and the Navy Supply Systems Command.

3. Financial reports on file at the Bureau of Naval Personnel. Selected categories of expenditures incurred during the Fiscal Year which ended June 15, 1967 were analyzed for forty-five stations selected at random from a total of 220 stations. The sample stations were categorized as small, medium, or large based upon their total amount of expenditures.

4. Questionnaires mailed to seventy stations selected at random from the 220 stations. Forty-five completed questionnaires returned provided data for analysis of the management of Navy recreation funds at the station level. A copy of the questionnaire utilized is included in the Appendix.

CHAPTER II

BACKGROUND OF NAVY RECREATION FUNDS

Definition

Navy recreation funds are nonappropriated funds used to supplement Federal Government appropriations authorized for the maintenance of a morale, welfare, and recreation program for naval personnel.

The naval station department responsible for the recreation program is generally called the Special Services Department, and is administered by a Special Services Officer. Accordingly, recreation funds are often referred to as "Special Services Funds." The two terms are synonomous and are used interchangeably.

Origin

The origin of Navy recreation funds can be traced to the inception of the retail sales and services organizations in the Navy. These are known today as the Ship's Store and the Navy Exchange systems. The Ship's Store system evolved from a variety of canteen service operations initiated in the early days of the United States Navy (around 1800) as a result of a dissatisfaction with the operation of "bumboat"

privateers. "Bumboaters" were peddlers who operated out of small boats and sold toiletries, candy and a variety of other items to shipboard personnel. Knowing that the merchandise they sold was not otherwise available to the sailors while aboard ship, the "bumboaters" charged exorbitant prices for products that were frequently of inferior quality.

The undesirable "bumboat" operation was eliminated by the establishment of ships' stores. The early ships' stores were in the form of canteen operations. While some of the earliest canteens were operated by naval personnel for private gain, the profit from the majority was accumulated in a fund utilized for the recreation of "all hands" on an equitable basis.

The popularity and success of the ships' canteens led to their official establishment as Navy ships' stores. Congressional approval for ships' stores was first contained in the Naval Appropriations Act of March 3, 1902.[1] This congressional authorization was subsequently re-enacted in the United States Code Annotated, Title 34, Navy, article 533, and has since been codified in Title 10 of the United States Code.[2] Section 7604 of this Code provides that "a

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[1]Data obtained from the historical files of the Navy Ship's Store Office Representative, Washington, D. C.

[2]United States Code Annotated, Title 10, Public Law 1028, Chapter 1041, H.R. 7049, 84th Cong., Approved August 10, 1956.

profit of not more than 15 percent may be charged on sales from ship's stores." These regulations further prescribed that the profit shall be used equitably for the welfare of officers and enlisted members of the naval service on vessels of the Navy and at naval activities outside of the United States. At other naval activities, the profits shall be used for the amusement, comfort, and contentment of enlisted members only.[1]

During the years preceding 1942, each ship was permitted to retain the total ship's store profits for its exclusive use. In the early part of World War II a need arose for a central fund to be used for settlement of outstanding debts owed by ships which were lost as a result of the war operations. Such a fund was established officially on August 3, 1942 based upon the authorization contained in the Navy directive, ALNAV 133-42. This directive named the Bureau of Naval Personnel as the cognizant bureau for disposing of outstanding accounts and residual funds of vessels lost at sea and "such other matters as were appropriate."

In order to establish such a fund, the Chief of Naval Personnel initiated a financial assessment program. Each ship which operated a ship's store was required to transmit one percent of the ship's store gross sales to the

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[1] Ibid.

Chief of Naval Personnel for maintenance of the central fund. As the demand for settlement of outstanding accounts decreased, the resources of the central fund were applied to other areas, such as assistance in the establishment of recreation funds for new ships and stations, grants and loans for major recreation projects, and payment for motion picture films made available to all ships and overseas stations.

During Fiscal Year 1967, the Central Recreation Fund received $8.0 million income and expended $6.2 million, resulting in a $1.8 million net increase in the fund. The major expenditures were $4.1 million for motion picture service, $1.1 million in grants for special projects, and $.7 million for insurance covering all recreation fund activities. At the end of Fiscal Year 1967 there were 137 loans outstanding to 130 different stations. The total value of these outstanding loans was $4.6 million.

The popularity of the ship's store operation and its financial contribution to a ship's recreation program led to the establishment of similar retail operations at shore stations. These stores, which originally were called "Ship's Stores Ashore," are known today as Navy Exchanges and operate under the Congressional Armed Forces Exchange Regulations. The growth in total combined sales from less than $5 million in 1941 to more than $500 million in 1967 is indicative of the popularity and success of the retail sales organization.

The growth in size and importance of the retail store operations led to the establishment in 1946 of a central management activity, the Navy Ship's Store Office, operated as a field activity of the Bureau of Supplies and Accounts (now the Navy Supply Systems Command). The Navy Ship's Store Office (singular possessive "ship's" is the form used in the official title) prescribed the operating procedures for the retail stores but did not exert any control over management of the recreation funds which resulted from profits from the operation of the stores. Recreation funds at each ship and station continued to be controlled by the commanding officer of that ship or station under broad policy guidance issued by the Chief of Naval Personnel.

Responsibilities

The Chief of Naval Personnel

The Chief of Naval Personnel is charged by Navy Regulations with the responsibility for the overall administration of the Navy's recreation program. The regulations state in part, "Recreation funds and property acquired through expenditure from recreation funds shall be administered as prescribed by the Chief of Naval Personnel."[1]

The Chief of Naval Personnel has delegated to the Assistant Chief of Naval Personnel for Morale Services the

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[1]U. S. Department of the Navy, United States Navy Regulations (Washington, D. C.: Government Printing Office, 1948), Article 1975.

responsibility for the formulation of policy directed toward the maintenance of high levels of morale of naval personnel, and the administration of central nonappropriated funds available for their welfare and recreation, and for welfare and recreational activities of the Navy.[1]

The Station Commanding Officer

The administration of a naval station's recreation fund is the direct responsibility of the commanding officer of the station. This basic assignment of responsibility is in keeping with the general autocracy afforded commanding officers by Navy Regulations, which state, "The responsibility of the commanding officer for his command is absolute, except when, and to the extent relieved therefrom by competent authority, or as provided otherwise in these regulations."[2] Navy Regulations go on to state, "The commanding officer shall use all proper means to promote the morale, and to preserve the moral and spiritual well-being of the personnel under his command."[3]

The Commanding Officer, Navy Ship's Store Office

The Commanding Officer of the Navy Ship's Store Office is responsible for the administration of the Navy Exchange resale system. In this capacity he also exercises

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[1]U. S. Department of the Navy, Bureau of Naval Personnel Manual, NAVPERS 15791A (Washington, D.C.: Government Printing Office, 1959), Article A-1134.

[2]United States Navy Regulations, Article 0709.

[3]Ibid.

administrative control of a central reserve fund called an Improvement Fund, which is used for financial assistance to stations for improvements to Navy Exchange facilities. The financial assistance is in the form of loans which must be repaid from the station's Navy Exchange profits.

The Commanding Officer of the Navy Ship's Store Office also administers the expenditure of profits generated by Enlisted Men's Clubs which are operated within the Navy Exchange system.

Application

The Department of Defense directive governing the morale, welfare, and recreation program provides for the use of nonappropriated funds (Navy recreation funds) to supplement appropriated funds in support of the recreation program.[1] Specific responsibilities of these two classes of funds are not contained in the Department of Defense directive.

The Department of the Navy has implicitly reported the financial responsibilities of the Navy recreation funds by delineation of the authorized uses of appropriated funds.[2] The authorized uses of appropriated funds in the recreation

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[1] U. S. Department of Defense, Department of Defense Directive 1330.2. Subject: Funding of Morale, Welfare, and Recreation Facilities, January 19, 1953.

[2] U. S. Department of the Navy, Navy Comptroller Manual (Washington, D. C.: Government Printing Office, 1952), Paragraph 035851.

program are reported below because of their application to this study of the management of the Navy recreation funds:

1. Original construction of facilities and equipment built into a facility or permanently installed.

2. Conversion or alteration to expand or reduce the facilities to meet the needs of the Government.

3. Construction and maintenance of roadways, sidewalks, parking areas, protective fences, and railings.

4. Normal station maintenance of grounds, including snow removal.

5. Original outfitting and replacement of office labor-saving devices and of furniture, furnishings, and equipment (except table linen, dishes, glassware, silver, and cooking utensils) that normally would be supplied for general messes.

6. Common services, such as fire and security protection, pest control, trash and garbage removal, sewage disposal, and medical inspection.

7. Audit performed by military or civil service personnel.

8. Department of the Navy prescribed forms carried in the Navy Supply System.

9. Use of off-station facilities (obtained by lease or other means) whether occupied partly or entirely by morale activities.

10. Maintenance, repair, and replacement of heating, electrical, plumbing, and sewage systems, and other items conforming to the definitions of class 2 property [buildings].

11. Maintenance of exterior and interior of buildings in accordance with regularly scheduled maintenance work.

12. Utilities (heat, steam, water, ice, electricity, refrigeration, gas, compressed air,

> air conditioning, and telephone service) for activities, other than concessionaire operated civilian resale activities, located in Alaska and outside the United States.[1]

The Navy regulation provides that Navy recreation funds shall be charged for all costs of work or services furnished to the individual morale activity except to the extent that appropriated funds are authorized to provide assistance.[2]

The use of appropriated funds is limited to those uses specifically authorized by the Comptroller of the Navy, and in an amount determined appropriate by the commanding officer of the military installation. Similar limitations are not provided for the use of nonappropriated funds. In fact, the Navy Comptroller regulation reports:

> When nonappropriated funds of a morale activity are used to finance work or services which otherwise, in accordance with existing regulations, could have been financed from appropriated funds, the nonappropriated fund account will not be reimbursed from appropriated funds for the cost of such work or services.[3]

Limitations on the use of recreation funds are contained in a Bureau of Naval Personnel regulation. The following restrictions are included:

1. Services or material obtainable with appropriated

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[1] Ibid.

[2] Ibid.

[3] Ibid.

funds except in emergencies or in outstandingly deserving cases when all other possibilities of financing have been exhausted, and it has been established that appropriated funds cannot be made available within a reasonable length of time.

2. Construction of new facilities or structural alterations to existing facilities where the total cost exceeds $10,000.[1]

The significance of these limitations and authorized uses of appropriated and nonappropriated funds in the management of the Navy recreation funds will be emphasized in the expenditure analysis section of Chapter III of this paper.

The specific programs or activities to be included in a facility's recreation program are not prescribed by the Chief of Naval Personnel, or any higher authority. The governing Navy directive prescribes the following:

> Recreation funds may be expended for any purpose which the commanding officer deems necessary and proper in the maintenance of an adequate and well-rounded morale and recreation program for all authorized personnel on an equitable basis. Due to the many variables in the programs, no specific guidelines are provided.[2]

The following programs and activities are indicative

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[1]U. S. Department of the Navy, Bureau of Naval Personnel, Special Services Manual NAVPERS 15869A (Washington, D. C.: Government Printing Office, 1963), Article 1241.

[2]Ibid.

of the current application of Navy recreation funds:

1. Motion Pictures
2. Athletics (Softball, Baseball, Football, etc.)
3. Bowling
4. Golf
5. Swimming
6. Billiards
7. Fishing and hunting
8. Camping
9. Boating
10. Horseback riding
11. Hobby crafts of all types
12. Rifle and pistol firing
13. Picnic areas
14. Bathing beaches
15. Theatrical and drama
16. Dances, parties, and entertainment
17. Libraries
18. Station newspapers

CHAPTER III

THE CURRENT MANAGEMENT SYSTEM

DECENTRALIZED CONTROL

Background

The current management system for Navy recreation funds is a direct reflection of the history and growth of the funds. The nearly absolute control of recreation funds by the commanding officer of each station is an outgrowth of the origin of the fund, namely, the ship's canteen, which evolved into the current ship's store and the ship's store ashore, which has evolved into the current Navy Exchange resale program.

The assignment of overall responsibility for the operation of ships' stores to a Navy Department bureau chief was the result of the official naval status inferred from the operation of resale activities at naval facilities. The Chief of Naval Personnel was selected as the cognizant bureau chief because of the association of the resale activities and the use of the generated profits with the welfare and morale of naval personnel.

The Central Recreation Fund established under the cognizance of the Chief of Naval Personnel for settlement of

outstanding ship's store accounts of ships lost at sea, has evolved into a special project loan and grant fund because of the very limited need currently for its original purpose.

The extension of the ship's store program to every major ship and station of the Navy, and the expansion of goods and services offered created the need for a central management organization for proper control. The requirement for nonappropriated funds to support the administrative costs of this central management agency, the Navy Ship's Store Office, has resulted in the imposition of another assessment on store sales, which in turn has resulted in another fund, the Improvement Fund, which affects the Navy recreation program.

The author has little doubt that each of these commands and the funds they control provide a vital contribution to the Navy recreation program. However, based upon a review of correspondence on file at the Special Services Division and the comments contained in the returned questionnaires, the author has concluded that the current financial management system may not be providing the most effective utilization of the total recreation funds available in the Navy.

Administration

The current management system for Navy recreation funds is essentially a decentralized system in which the commanding officer of each naval station receives an income to

the station recreation fund based upon the amount of profit generated by the Navy Exchange retail system at his station.

Broad policy guidance is issued by the Chief of Naval Personnel through the Assistant Chief of Naval Personnel for Morale Services. The latter's reponsibilities are exercised through a Special Services Division. Its functions, as set forth by the Bureau of Naval Personnel Manual, are to formulate and promulgate policies for programs designed to increase and sustain high levels of morale and efficiency for naval personnel throughout the naval establishment.[1] The current bureau organization and the staffing of the Nonappropriated Fund Branch of the Special Services Division is detailed in Figure 1.

The administration of the individual station recreation fund is the direct responsibility of the commanding officer of each station. He is charged with the responsibility to insure that the funds are properly received and expended. To assist him in the proper administration of the recreation fund, each commanding officer has been directed to appoint a commissioned officer to act as Special Services Officer.[2]

The duties of the Special Services Officer include the general planning, budgeting, and coordinating of the operation of a comprehensive recreation program. The number of assistants assigned and other administrative personnel employed varies at different stations in proportion to the

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[1] Bureau of Naval Personnel Manual, Article 1134.

[2] Special Services Manual, Article 1221.

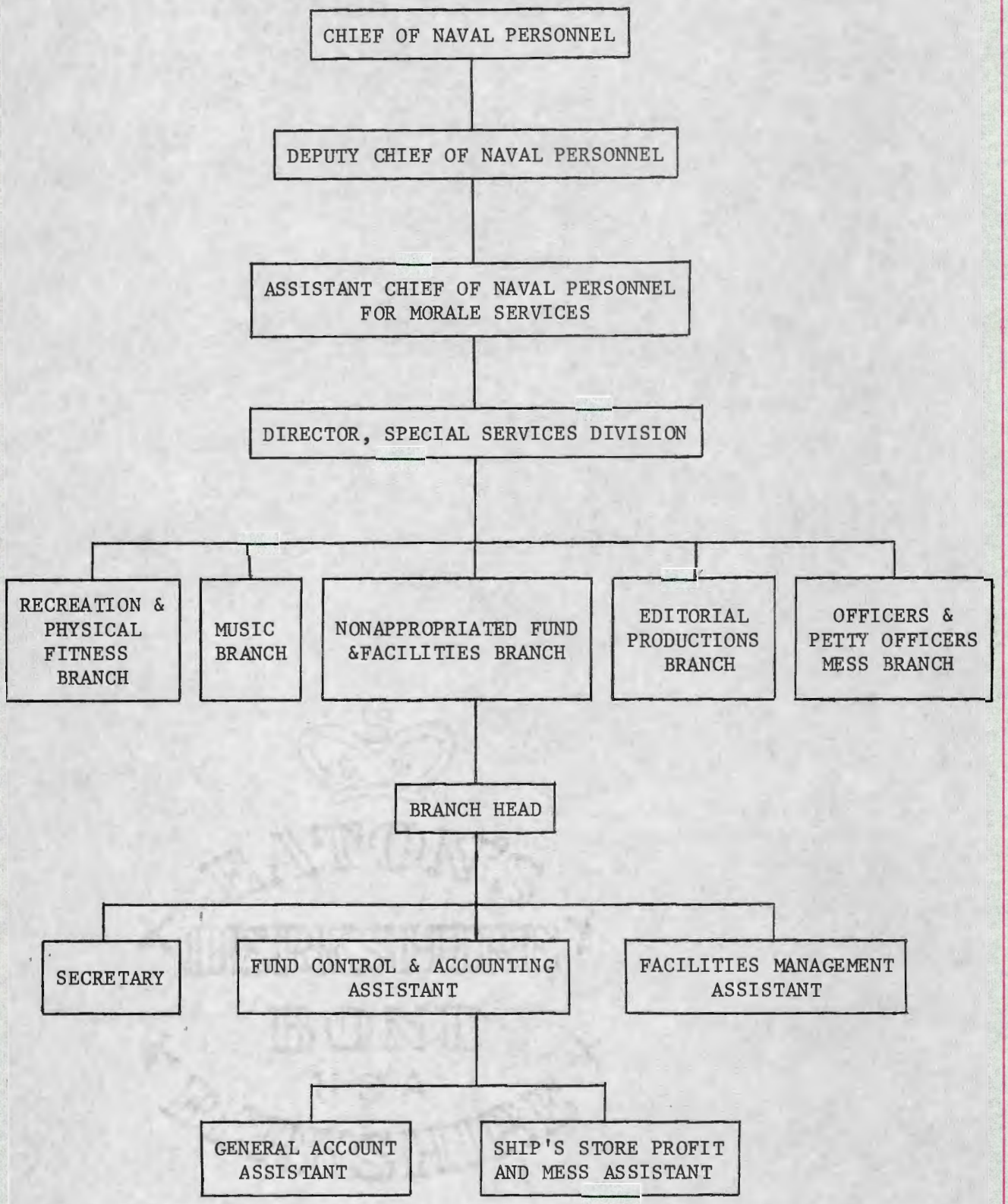
CHIEF OF NAVAL PERSONNEL
DEPUTY CHIEF OF NAVAL PERSONNEL
ASSISTANT CHIEF OF NAVAL PERSONNEL FOR MORALE SERVICES
DIRECTOR, SPECIAL SERVICES DIVISION
RECREATION & PHYSICAL FITNESS BRANCH
MUSIC BRANCH
NONAPPROPRIATED FUND &FACILITIES BRANCH
EDITORIAL PRODUCTIONS BRANCH
OFFICERS & PETTY OFFICERS MESS BRANCH
BRANCH HEAD
SECRETARY
FUND CONTROL & ACCOUNTING ASSISTANT
FACILITIES MANAGEMENT ASSISTANT
GENERAL ACCOUNT ASSISTANT
SHIP'S STORE PROFIT AND MESS ASSISTANT

Fig. 1.--Special Services Division, Bureau of Naval Personnel, Organizational Structure.

size and scope of the recreation program. The Special Services Officer is a vital link in the recreation program management chain. His interest and ability in administration of the recreation program are a major influence on the success of the program.

The Navy does not have a separately identifiable group of officers specialized in recreation program administration. Consequently, the assignment of an officer to administer the Special Services Department is a "hit or miss" proposition at some stations. Sometimes an officer is selected because he is "available." At some stations the most junior, or the most inexperienced officer is assigned because all the more senior officers are required for operational billets. The normal rotation of officers creates additional problems in the assignment of Special Services officers.

Recognizing these possible problem areas, the commanding officers of many stations are turning to civilian leadership of their recreation program. The regulations permit qualified civilians to be appointed as Special Services officers when approved by the Chief of Naval Personnel.[1] The primary advantage in the assignment of a civilian to administer the recreation program is continuity of leadership. At some stations a civilian is assigned as

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[1] Ibid.

the Assistant Special Services Officer, maintaining military leadership in the top position.

The summary of Special Services Officer assignments contained in Table 1 provides an insight to the leadership philosophy which prevails at some stations. The lack of civilian personnel at the small stations indicates that availability of funds (either appropriated or nonappropriated) may also be a major factor in deciding between an officer or a civilian for assignment as Special Services Officer.

The Commanding Officer of the Navy Ship's Store Office administers the expenditure of that portion of the Navy Exchange System profits generated from the operation of Enlisted Men's Clubs. These funds are reserved for use by the generating activity for refurbishing of the club facilities and for providing professional entertainment in the form of dance bands, vocal groups, comedy acts, and various other shows. The Commanding Officer of the Navy Ship's Store Office also administers control of an Improvement Fund which results from an excess of Navy Exchange sales assessments over the cost of the Navy Ship's Store Office administration. This fund is used to provide loans to stations for development of the station's Navy Exchange physical facilities.

The Bureau of Naval Personnel Central Recreation Fund is administered by a board of not less than five commissioned

TABLE 1

SUMMARY OF SPECIAL SERVICES OFFICER ASSIGNMENTS

Activity	Total Receipts[1]	Special Services Officer	Activity	Total Receipts[1]	Special Services Officer	Activity	Total Receipts[1]	Special Services Officer
AA - 1	$957	GS - 14	BB - 1	$388	CDR.	CC - 1	$66	ENS.
AA - 2	892	LT.	BB - 2	292	LT.	CC - 2	62	LCDR.
AA - 3	871	LCDR.	BB - 3	291	GS - 10	CC - 3	60	LT.
AA - 4	863	GS - 12	BB - 4	281	GS - 12	CC - 4	53	ENS.
AA - 5	634	GS - 11	BB - 5	251	LT.	CC - 5	46	LT.
AA - 6	591	GS - 13	BB - 6	245	LCDR.	CC - 6	42	LCDR.
AA - 7	527	ENS.	BB - 7	239	GS - 9	CC - 7	42	LT.
AA - 8	513	CWO	BB - 8	234	LT.	CC - 8	39	LTJG
AA - 9	484	CIVILIAN[2]	BB - 9	214	GS - 11	CC - 9	33	LT.
AA - 10	408	GS - 10	BB - 10	211	LT.	CC - 10	29	LCDR.
			BB - 11	192	GS - 7	CC - 11	19	LT.
			BB - 12	180	GS - 12	CC - 12	18	LTJG
			BB - 13	174	LCDR.	CC - 13	13	ENS.
			BB - 14	169	GS - 10	CC - 14	7	LTJG
			BB - 15	137	LCDR	CC - 15	3	LCDR

[1]Total annual receipts for Fiscal Year 1967; includes Navy Exchange profits and income from Special Services activities, but excludes any loans or grants. All dollar amounts are reported in thousands.

[2]Absence of civil service grade indicates probable employment utilizing nonappropriated funds.

officers appointed by the Chief of Naval Personnel. The chairman of this board is the Assistant Chief of Naval Personnel for Morale Services. The Board of Administrators meets at the direction of the chairman to determine action to be taken on requests for funds from station commanders. The board determines which requests are to be approved and whether a loan or a grant is to be effected. The latter determination is based primarily upon the size of the station and its income-producing capacity.

Fund Receipts

Sources

The primary source of income for Navy recreation funds is profit generated by the Navy Exchange system. The current decentralized system provides that each station receives its total profit after assessments levied by the Commanding Officer, Navy Ship's Store Office and by the Chief of Naval Personnel.

A secondary source of station recreation funds is income resulting from fees charged by some stations for use of some recreation facilities. In addition, income at some stations is realized from the sale of hobby craft materials.

The primary source of income for the Central Recreation Fund maintained by the Chief of Naval Personnel is the assessment levied on Navy Exchange profits generated at each station.

The Navy Ship's Store Office Improvement Fund, as previously noted, receives its income from any excess from the assessment made on Navy Exchange sales over the cost of operation of the Navy Ship's Store Office. An indication of the magnitude of operation of the Improvement Fund can be obtained from the $6.5 million value of authorized loans outstanding as of May, 1967. In addition to this fund, the Navy Ship's Store Office controls all profits generated by Enlisted Men's Clubs

A summary of the distribution of the total Navy Exchange profits for Fiscal Year 1967 is contained in Table 2.

Controls

Navy resale activities ashore were originally governed by legislation which prescribed a profit limitation of 15 percent on sales.[1] This legislation is a carryover from the Act of June 24, 1910 which originally prescribed the profit limitation.[2] When the "ship's stores ashore" were transformed to "Navy Exchanges," they became subject to the Armed Forces Exchange Regulations which do not prescribe a limitation on profits. The existing legislation has been interpreted to apply only to ship's stores, which are now operated primarily aboard ships.

Inasmuch as the primary purpose of the Navy resale program is to provide material considered necessary for the health and comfort of Naval personnel at a reasonable cost,

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[1] United States Code, Section 7604.

[2] Data obtained from the historical files of the Navy Ship's Store Office Representative, Washington, D. C.

TABLE 2

DISTRIBUTION OF NAVY EXCHANGE PROFITS
FISCAL YEAR 1967

		Amount[1]	%
1. Gross Profit from Retail Operations[2]		$53,688	100.0
2. Assessment for Navy Ship's Store Central Office Administration[3]		17,973	33.5
3. Net Profit from Navy Exchange Operations		35,715	66.5
4. Deductions from Net Profit:			
a. Repayment of Loans from Navy Ship's Store Office	$2,515		4.7
b. Enlisted Men's Club Profits	4,320		8.0
c. Assessment for Bureau of Naval Personnel Fund	5,411		10.1
d. Deductions for Excess Inventory Losses	117		0.2
Total Other Deductions		12,363	23.0
5. Profits Returned to Station Recreation Funds		$23,352	43.5

[1]All dollar amounts are reported in thousands.

[2]Total sales of $544,456,717 less cost of sales and operating expenses of $490,768,414.

[3]The excess of this assessment over the total cost of the central office administration represents income to the Navy Ship's Store Office Improvement Fund.

the lowest price mark-up consistent with the total requirement for Navy recreation funds was established as a pricing objective. A Secretary of the Navy directive was issued in 1945 directing that the Chief of Naval Personnel report to the Chief, Bureau of Supplies and Accounts (now the Commander, Naval Supply Systems Command) "an estimate of the total amount of resale profits desired annually for the welfare, amusement, comfort, and contentment of Navy personnel, together with a statement of the contemplated use of such funds."[1] This information was to be used by the Bureau of Supplies and Accounts (through the Navy Ship's Store Office) as a "guide in setting profit rates at proper levels."[2]

Based upon a review of Navy files and personal interviews with management personnel from the Bureau of Naval Personnel and the Navy Supply Systems Command, the author concludes that such a report of total fund requirements has never been accomplished. Apparently, decentralized control has progressed to the stage where top management (the Bureau of Naval Personnel) is not aware of the total requirements for Navy recreation funds.

Individual stations apparently have no limitation on the amount of profits which may be generated by their special services

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[1]Data obtained from the historical files of the Navy Ship's Store Office Representative, Washington, D. C.

[2]Ibid.

income-producing programs. The applicable directive states:

> Receipts into the Recreation Fund will normally consist of the following:
>
> (a) Profits derived from the operation of the ship's store and Navy exchanges.
>
> (b) Receipts from the operation of theaters, golf courses, hobby shops, bowling alleys, and other activities operated by the Special Services.
>
> (c) Gifts and contributions for the benefit of personnel attached to the activity.
>
> (d) Loans and grants from the Command Recreation Fund and/or the Bureau of Naval Personnel Central Recreation Fund.[1]

Table 3 contains an analysis of a station's recreation fund income as computed from data provided by the forty-five stations which returned completed questionnaires. The data shows the relative significance of the income generated by station-operated recreation facilities for Fiscal Year 1967.

Fund Expenditures

Budgeting and Control

Budgeting at the station level currently consists of a planned allocation of the total estimated income for a subsequent period. There are no standard minimum or maximum programs prescribed for any station. Inasmuch as each station's income is derived from the Navy Exchange profits generated at each particular station plus any income

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[1] Special Services Manual, Article 1230.

TABLE 3

ANALYSIS OF ANNUAL INCOME OF STATION RECREATION FUNDS[1]

Activity size[2]	Total receipts[3]	Navy Exchange profit	%	Receipts from recreation programs	%
Large	$674	$405	60	$269	40
Medium	201	116	58	85	42
Small	35	26	74	9	26
Overall Mean[4]	250	150	60	100	40

[1]Arithmetic mean of income of stations which responded to mailed questionnaires; all dollar amounts are reported in thousands.

[2]Activity size grouping based upon the following total receipt ranges:

Large	$400,000 - $1,000,000
Medium	100,000 - 399,000
Small	1,000 - 99,000

[3]Excludes any loans or grants.

[4]Overall mean based upon totals from ten large, twenty medium, and fifteen small activities.

generated by recreation activities operated at that station, budgeting of expenditures is based solely upon estimated income. Some stations may establish reserves for major projects, but generally each station's goal is to expend the total income in the current period. Contributing somewhat to this "spend it all" policy may be a fear that the Chief of Naval Personnel will consider unexpended funds as excess to a station's needs and withdraw them for inclusion in the Central Recreation Fund.

The directive governing the administration of recreation funds at stations which operate with a manual accounting system does not definitely require the preparation of a budget. This directive, which was applicable to all stations prior to 1965, prescribes that "activities will prepare a budget, where practical, covering anticipated obligations on an accounting period basis."[1]

The accounting directive which applies to all stations operating under the centralized accounting system does require activities to prepare a budget covering "anticipated obligations."[2] The budget prescribed is for local use only and still represents a planned allocation of estimated income.

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[1]U. S. Department of the Navy, Office of the Comptroller of the Navy, Accounting Handbook for Nonappropriated Funds, NAVSO P-2409 (Washington, D. C.: Government Printing Office, 1963), p. 2-7.

[2]U. S. Department of the Navy, Office of the Comptroller of the Navy, Centralized Accounting Handbook for Navy Recreation Funds, NAVSO P-2460 (Washington, D. C.: Government Printing Office, June, 1966), p. 2-1.

Allocation of funds from the Central Recreation Fund is not based upon any budget or programmed allocation. The Board of Administrators meets periodically to pass judgment on requests submitted by various stations for financial assistance for special projects or for the initial establishment of a recreation fund at a new station. The total amount approved is based upon the balance in the Central Recreation Fund at the time of the meeting. Requests which are not approved for funding at any meeting are returned to the applicable station for resubmission if desired. Disapproved requests are not carried forward to the next meeting of the board.

The Commanding Officer of the Navy Ship's Store Office requires each station which operates an Enlisted Men's Club to submit a "Six Month Entertainment Forecast" of the cost of club entertainment. The forecast of entertainment expense must be based upon the estimated profit of the club, and must not be exceeded after it has been forwarded to the Navy Ship's Store Office and approved by that office. Revisions to the forecast based upon anticipated changes in profits may be submitted at any time for review and approval. A range limit of 50 percent to 70 percent of the profit is prescribed for entertainment expense in order to accumulate funds for refurbishment of the club facilities.[1]

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[1]U. S. Department of the Navy, Navy Ship's Store Office Instruction 406118, August 23, 1965. Subject: Operation of Navy Exchange Department K-5, Enlisted Men's Club. Enclosure (2), p. 1.

The Navy Ship's Store Office Improvement Fund is administered in a manner similar to that used for the Bureau of Naval Personnel Central Recreation Fund. A special committee composed of administrative personnel from the Navy Ship's Store Office meets periodically to review station requests and staff recommendations for improvements to station facilities. Loans are effected based upon the committee's recommendations.

This committee (the Planned Improvement Committee) reviews improvement programs which are submitted by each station on a required annual basis as well as special project submissions. The improvement program submission is a form of budget which details improvements in physical plant and equipment desired for Navy Exchange facilities. The committee also approves expenditure of funds for procurement of equipment and fixtures for station improvement projects.

Loans granted from the Navy Ship's Store Office Improvement Fund must be repaid from the station's Navy Exchange profits within five years. Reimbursement is not required for expenditures made for equipment and fixtures.

Analysis

Appropriated Fund Type Programs

The stated policy of the Department of Defense is to provide a recreation program through the use of appropriated funds which may be supplemented as necessary with nonappropriated

funds.[1] The use of appropriated funds for recreation programs has been restricted by the Comptroller of the Navy to the specific categories of expenditures which are enumerated in Chapter II of this paper. The Comptroller of the Navy does not prohibit the use of nonappropriated funds (recreation funds) for any of the categories authorized for appropriated fund expenditures. However, the Chief of Naval Personnel has promulgated some restrictions on the use of recreation funds, also enumerated in Chapter II.

A generally experienced deficiency of appropriated funds has led to various interpretations and applications of the directives governing the use of appropriated and nonappropriated funds for recreation programs.

The tables which follow indicate the wide variations which exist in expenditure of recreation funds for those categories of expenditures most closely associated with authorized appropriated fund expenditures. Some of the variation is very likely the result of honest misinterpretations of regulations. Other variations occur because of the availability of "excess" nonappropriated funds at some stations. Some variations in the Installation and Renovation category are the result of loans or grants authorized by the Chief of Naval Personnel from the Central Recreation Fund. Other variations may be the result of

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[1] Department of Defense Directive 1330.2.

accounting procedures at the station level where the expenditures are originally categorized.

The comparative analyses contained in Tables 4 - 7 indicate that use of recreation funds for appropriated fund type expenditures is more prevalent at the larger, "rich" stations. This situation is to be expected because of the greater probability of "excess" recreation funds at the larger stations. The smaller stations, on the other hand, attempt to "stretch" their limited recreation funds by ensuring maximum use of appropriated funds authorized for recreation programs.

The regulations pertaining to personnel utilization procedures permit the assignment of military personnel or civilian personnel paid from appropriated funds to duties involved in the recreation program. Such assignments are limited by station military personnel allowances and civilian personnel ceilings. Availability of appropriated funds also limits civilian personnel utilization. Acknowledging these limitations, the regulations authorize the use of recreation funds when appropriated funds are not available or the personnel ceilings are not sufficient.

Departmental payroll expenditures are relatively larger than the other payroll categories because the former are incurred primarily through income-producing programs, many of which are financially self-sustaining.

TABLE 4

GROUP A - LARGE ACTIVITIES
COMPARATIVE ANALYSIS[1]
APPROPRIATED FUND TYPE EXPENDITURES

Activity	Total Activity Expenditures[2]	Departmental Payroll		Administrative Payroll		Maintenance Payroll		Maintenance		Installation & Renovation	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A - 1	$1179	$224	19	$ 55	5	$86	7	$121	10	$307	26
A - 2	1053	114	11	990	9	25	2	119	11	329	31
A - 3	1046	233	22	99	9	26	2	20	2	127	12
A - 4	877	158	18	32	4	0	0	108	12	40	5
A - 5	824	409	50	51	6	29	4	25	3	6	1
A - 6	815	207	25	55	7	31	4	23	3	97	12
A - 7	553	126	23	6	1	5	1	29	5	91	16
A - 8	526	120	23	59	11	17	3	16	3	81	15
A - 9	514	130	25	39	8	32	6	61	12	8	2
A - 10	491	126	26	33	7	9	2	30	6	68	14
A - 11	469	117	25	108	23	21	5	22	5	27	6
A - 12	414	87	21	29	7	26	6	11	3	5	1
A - 13	408	153	37	16	4	0	0	29	7	43	11
A - 14	396	130	33	19	5	5	1	20	5	31	8
A - 15	325	84	26	6	2	0	0	21	6	1	0

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 5

GROUP B - MEDIUM ACTIVITIES
COMPARATIVE ANALYSIS[1]
APPROPRIATED FUND TYPE EXPENDITURES

Activity	Total Activity Expenditures[2]	Departmental Payroll		Administrative Payroll		Maintenance Payroll		Maintenance		Installation & Renovation	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
B - 1	$287	$23	8	$55	19	$ 3	1	$10	3	$ 0	0
B - 2	277	64	23	13	5	0	0	8	3	62	22
B - 3	268	47	18	14	5	11	4	4	1	34	13
B - 4	258	84	33	25	10	0	0	12	5	2	1
B - 5	254	35	14	12	5	1	0	18	7	7	3
B - 6	224	66	29	18	8	33	15	11	5	0	0
B - 7	222	85	38	18	8	7	3	18	8	1	0
B - 8	222	45	20	0	0	0	0	12	5	11	5
B - 9	218	28	13	12	6	0	0	15	7	41	19
B - 10	216	47	22	15	7	0	0	12	6	8	4
B - 11	213	57	27	13	6	4	2	21	10	20	9
B - 12	184	40	22	24	13	4	2	24	13	21	11
B - 13	153	30	20	0	0	11	7	0	0	4	3
B - 14	139	15	11	1	1	0	0	19	14	1	1
B - 15	137	35	26	10	7	0	0	4	3	20	15

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 6

GROUP C - SMALL ACTIVITIES
COMPARATIVE ANALYSIS[1]
APPROPRIATED FUND TYPE EXPENDITURES

Activity	Total Activity Expenditures[2]	Departmental Payroll		Administrative Payroll		Maintenance Payroll		Maintenance		Installation & Renovation	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
C - 1	$93.3	$20.3	22	$15.0	2	$ 6.1	7	$ 6.5	7	$ 0.0	0
C - 2	84.8	20.7	24	1.6	2	0.0	0	4.5	5	0.0	0
C - 3	67.9	6.4	9	7.0	10	0.0	0	1.9	3	1.8	3
C - 4	64.0	12.5	20	0.1	0	0.1	0	0.9	1	24.5	38
C - 5	62.5	10.0	16	4.8	8	0.0	0	2.2	4	10.3	16
C - 6	61.4	6.3	10	0.0	0	0.0	0	3.2	5	18.6	30
C - 7	55.5	15.7	28	7.8	14	0.5	1	0.0	0	0.0	0
C - 8	45.1	12.9	29	3.4	8	3.5	8	0.0	0	1.6	4
C - 9	39.4	9.6	24	1.8	5	0.0	0	1.9	5	0.4	1
C - 10	36.7	7.4	20	0.9	2	0.9	2	0.2	1	2.5	7
C - 11	34.5	3.6	10	0.0	0	0.0	0	2.0	6	7.5	22
C - 12	22.9	4.4	19	0.4	2	0.0	0	1.2	5	8.9	39
C - 13	16.1	3.0	19	0.2	1	0.0	0	0.6	4	0.0	0
C - 14	5.7	0.0	0	0.0	0	0.0	0	0.1	2	0.0	0
C - 15	4.2	0.4	10	0.1	2	0.0	0	0.5	12	0.0	0

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 7

COMPARATIVE SUMMARY
APPROPRIATED FUND TYPE EXPENDITURES

Expenditure	Activity group	Percentage range		
		Low	High	Mean
1. Departmental Payroll				
	A	11	50	26
	B	8	38	22
	C	0	29	17
2. Administrative Payroll				
	A	1	23	7
	B	0	19	7
	C	0	14	4
3. Maintenance Payroll				
	A	0	7	3
	B	0	15	2
	C	0	8	1
4. Other Maintenance Expense				
	A	2	12	6
	B	0	14	6
	C	0	7	4
5. Installation and Renovation				
	A	0	31	11
	B	0	22	7
	C	0	39	11

Income-producing Programs

The programs selected for this analysis are not the only income-producing programs sponsored, but are the most widely maintained, and generally involve the greatest expenditure of funds. There is no requirement for stations to levy charges for the use of any recreation facilities, but nearly all stations do assess a fee for one or more programs. In some instances, charges may be made merely to control the use of the facilities so that a maximum number of personnel may be accommodated.

Motion pictures are the most popular of all programs included in this analysis. The higher mean percentage experienced by the "C" group (see Table 11) indicates the cost of maintaining the motion picture program does not increase in direct proportion to the increased number of personnel accommodated. In other words, a relatively fixed expenditure consumes a higher percentage of the smaller total expenditures experienced by the "C" group.

The second most popular program in this comparative analysis is bowling. The data indicates that bowling consumes nearly the same proportion of total expenditures in all three size groups. A direct relationship apparently exists between the number of personnel accommodated and the cost of the program.

The hobby craft program requires a sizeable outlay

TABLE 8

GROUP A - LARGE ACTIVITIES
COMPARATIVE EXPENDITURE ANALYSIS[1]
INCOME-PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Hobby Crafts		Motion Pictures		Bowling		Golf	
		Amount	%	Amount	%	Amount	%	Amount	%
A - 1	$1179	$90	8	$49	4	$152	13	$ 21	2
A - 2	1053	71	7	48	5	144	14	34	3
A - 3	1046	44	4	17	2	92	9	124	12
A - 4	877	50	7	34	4	17	2	58	7
A - 5	824	19	2	7	1	84	10	65	8
A - 6	815	85	10	33	4	53	7	45	6
A - 7	553	25	5	27	5	34	6	108	20
A - 8	526	0	0	31	6	80	15	48	9
A - 9	514	79	15	10	2	18	4	55	11
A - 10	491	25	5	36	7	60	12	37	8
A - 11	469	0	0	23	5	29	6	83	18
A - 12	414	0	0	13	3	84	20	9	2
A - 13	408	43	11	14	3	33	8	56	14
A - 14	396	85	21	14	4	28	7	62	16
A - 15	325	66	20	33	10	20	6	44	14

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 9

GROUP B - MEDIUM ACTIVITIES
COMPARATIVE EXPENDITURE ANALYSIS[1]
INCOME-PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Hobby Crafts		Motion Pictures		Bowling		Golf	
		Amount	%	Amount	%	Amount	%	Amount	%
B - 1	$287	$64	22	$ 6	2	$ 9	3	$ 5	2
B - 2	277	29	10	10	4	24	9	40	14
B - 3	268	35	13	24	9	1	0	5	2
B - 4	258	24	9	24	9	23	9	1	0
B - 5	254	14	6	15	6	35	14	10	4
B - 6	224	4	2	8	4	10	4	50	22
B - 7	222	60	27	16	7	12	5	18	8
B - 8	222	64	29	11	5	38	17	12	5
B - 9	218	0	0	19	9	9	4	22	10
B - 10	216	0	0	8	4	31	14	32	15
B - 11	213	8	4	18	8	17	8	21	10
B - 12	184	3	2	5	3	4	2	1	1
B - 13	153	11	7	7	5	4	3	9	6
B - 14	139	21	15	5	4	10	7	20	14
B - 15	137	28	20	7	5	13	9	2	1

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 10

GROUP C - SMALL ACTIVITIES
COMPARATIVE EXPENDITURE ANALYSIS[1]
INCOME-PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Hobby Crafts		Motion Pictures		Bowling		Golf	
		Amount	%	Amount	%	Amount	%	Amount	%
C - 1	$93.3	$0.0	0	$2.4	3	$7.7	8	$9.4	10
C - 2	84.8	2.6	3	4.8	6	13.7	16	4.2	5
C - 3	67.9	1.8	3	8.5	13	10.0	15	1.2	2
C - 4	64.0	0.0	0	2.7	4	8.7	14	0.3	0
C - 5	62.5	2.0	3	6.2	10	1.7	3	0.2	0
C - 6	61.4	0.0	0	7.6	12	4.9	8	0.1	0
C - 7	55.5	0.0	0	9.1	16	0.4	1	0.2	0
C - 8	45.1	0.7	2	1.3	3	1.2	3	6.7	15
C - 9	39.4	0.0	0	3.2	8	5.1	13	0.9	2
C - 10	36.7	0.0	0	4.8	13	0.4	1	2.0	5
C - 11	34.5	0.0	0	4.2	12	3.7	11	0.1	0
C - 12	22.9	0.0	0	1.1	5	3.8	17	0.2	1
C - 13	16.1	0.0	0	2.2	14	1.2	7	0.1	1
C - 14	5.7	0.0	0	0.1	2	0.1	2	0.0	0
C - 15	4.2	0.0	0	0.4	10	0.9	21	0.0	0

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 11

COMPARATIVE EXPENDITURE SUMMARY
INCOME-PRODUCING PROGRAMS

Program	Activity group	Percentage range		Mean
		Low	High	
1. Hobby Crafts				
	A	0	21	8
	B	0	29	11
	C	0	3	1
2. Motion Pictures				
	A	1	10	4
	B	2	9	6
	C	2	16	9
3. Bowling				
	A	2	20	9
	B	0	17	8
	C	1	21	9
4. Golf				
	A	2	18	9
	B	0	22	7
	C	0	15	3

of equipment and tools, as well as the availability of adequate building space and other facilities. Accordingly, it is not considered unusual that the large activities expend a higher proportion of their total expenditures for the hobby craft program.

The results obtained from the analysis of expenditures for golf may be said to substantiate a popular notion that golf is a "rich man's sport." Other factors may influence this program, but certainly the availability of funds cannot be discounted in the explanation of the differences in the golf program expenditures.

Non-income Producing Programs

The non-income producing programs include two physical fitness programs which are considered basic to any station's recreation program--Organized Sports and General Recreation. The higher percentage of expenditure for the small stations apparently is the result of a relatively fixed cost to "field" athletic teams; the cost of this program, therefore does not increase in proportion to an increase in the size of the station. Expenditures for General Recreation, on the other hand, do appear to increase in direct proportion to the increase in the size of a station, and this cost is, therefore, nearly proportionately the same for all stations. This latter conclusion also appears to hold true for Libraries and Station Newspapers.

The expenditure for Libraries represents the cost of magazines and newspapers, but not books. Books are provided from a separate source of funds. The expenditure for Station Newspapers represents the cost of publication of a local station newspaper or newsletter.

The expenditures for Dances, Parties and Shows generally result from one or two station parties such as a Christmas Party (usually sponsored for the children of station personnel) and a Fourth of July picnic for "all hands" (all station personnel). In addition, some stations authorize a per capita allowance for departments or divisions to spend for socials of their choice. The larger proportion of expenditures for this category by the small stations is believed to result from a lack of recreation programs which require expensive physical facilities, such as bowling alleys, swimming pools, and hobby crafts. Although the buildings and other physical facilities required for stations' recreation programs are normally provided from appropriated funds, the general shortage of these funds has resulted in an increase in the use of nonappropriated funds for this purpose. Unless nonappropriated funds are provided from the Central Recreation Fund, only the larger stations can afford to expend recreation funds for this purpose.

TABLE 12

GROUP A - LARGE ACTIVITIES
COMPARATIVE EXPENDITURE ANALYSIS[1]
NON-INCOME PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Organized Sports		General Recreation		Dances, Parties, Shows		Libraries		Station Newspapers	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
A - 1	$1179	$69	6	$ 69	6	$ 26	2	$27	2	$11	1
A - 2	1053	35	3	97	9	5	0	14	1	15	1
A - 3	1046	70	7	92	9	13	1	28	3	0	0
A - 4	877	59	7	237	27	139	16	4	0	16	2
A - 5	824	76	9	337	41	11	1	15	2	0	0
A - 6	815	79	10	158	19	31	4	7	1	1	0
A - 7	553	22	4	60	11	17	3	8	1	2	0
A - 8	526	23	4	81	15	2	0	18	3	6	1
A - 9	514	40	8	82	16	17	3	19	4	2	0
A - 10	491	38	8	49	10	5	1	17	3	1	0
A - 11	469	34	7	50	11	3	1	29	6	0	0
A - 12	414	59	14	78	19	7	2	6	1	19	5
A - 13	408	36	9	45	11	6	1	24	6	0	0
A - 14	396	16	4	27	7	26	7	7	2	3	1
A - 15	325	20	6	36	11	22	7	5	2	0	0

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 13

GROUP B - MEDIUM ACTIVITES
COMPARATIVE EXPENDITURE ANALYSIS[1]
NON-INCOME PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Organized Sports		General Recreation		Dances, Parties, Shows		Libraries		Station Newspapers	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
B - 1	$287	$12	4	$14	5	$19	7	$ 5	2	$10	3
B - 2	277	17	6	26	9	0	0	6	2	0	0
B - 3	268	49	18	36	13	8	3	2	1	2	1
B - 4	258	16	6	85	33	8	3	6	2	0	0
B - 5	254	24	9	39	15	15	6	6	2	12	5
B - 6	224	21	9	0	0	4	2	4	2	8	4
B - 7	222	20	9	52	23	5	2	6	3	1	0
B - 8	222	15	7	15	7	11	5	5	2	0	0
B - 9	218	7	3	16	7	11	5	7	3	1	0
B - 10	216	26	12	21	10	3	1	5	2	16	7
B - 11	213	21	10	34	16	2	1	4	2	0	0
B - 12	184	3	2	75	41	0	0	2	1	1	1
B - 13	153	12	8	24	16	16	10	4	3	4	3
B - 14	139	15	11	31	22	1	1	1	1	2	1
B - 15	137	12	4	14	5	19	7	5	2	10	3

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 14

GROUP C - SMALL ACTIVITIES
COMPARATIVE EXPENDITURE ANALYSIS[1]
NON-INCOME PRODUCING PROGRAMS

Activity	Total Activity Expenditures[2]	Organized Sports		General Recreation		Dances Parties, Shows		Libraries		Station Newspapers	
		Amount	%	Amount	%	Amount	%	Amount	%	Amount	%
C - 1	$93.3	$ 3.2	3	$28.1	30	$ 2.0	2	$ 2.4	3	$ 0.0	0
C - 2	84.8	16.0	19	12.8	15	0.0	0	3.0	4	0.1	0
C - 3	67.9	2.6	4	11.1	16	3.6	5	2.1	3	0.0	0
C - 4	64.0	7.0	11	5.0	8	4.5	7	3.9	6	0.0	0
C - 5	62.5	6.6	11	7.9	13	8.1	13	3.1	5	1.6	3
C - 6	61.4	6.1	10	5.0	8	3.0	5	1.4	2	0.6	1
C - 7	55.5	5.6	10	7.2	13	9.9	18	6.0	11	1.8	3
C - 8	45.1	4.3	10	8.4	19	0.0	0	0.5	1	0.5	1
C - 9	39.4	8.1	21	3.3	8	5.4	14	4.3	11	2.2	6
C - 10	36.7	6.4	17	6.2	17	6.7	18	0.3	1	2.0	5
C - 11	34.5	4.1	12	6.6	19	3.5	10	0.5	1	0.0	0
C - 12	22.9	0.5	2	1.9	8	4.2	18	1.0	5	0.1	0
C - 13	16.1	2.2	14	2.7	17	1.2	7	0.1	1	0.0	0
C - 14	5.7	0.1	2	2.5	44	2.3	40	0.1	2	0.0	0
C - 15	4.2	0.4	10	0.2	5	1.1	26	0.1	2	0.1	2

[1]All dollar amounts are reported in thousands.

[2]Grand total includes expenditures not reported in this table.

TABLE 15

COMPARATIVE EXPENDITURE SUMMARY
NON-INCOME PRODUCING PROGRAMS

Program	Activity Group	Percentage range		
		Low	High	Mean
1. Organized Sports				
	A	3	14	7
	B	2	18	8
	C	2	21	10
2. General Recreation				
	A	6	41	15
	B	0	41	15
	C	5	44	16
3. Dances, Parties and Shows				
	A	0	16	3
	B	0	7	4
	C	0	40	12
4. Libraries				
	A	0	6	2
	B	1	3	2
	C	1	11	4
5. Station Newspapers				
	A	0	5	1
	B	0	7	2
	C	0	6	1

Per Capita Allocation

Recreation funds are to be expended in the maintenance of an adequate and well-rounded morale and recreation program for all authorized personnel on an equitable basis.[1] This is the stated Navy policy for expenditure of station recreation funds. This policy is carried out at each station by ensuring an equal opportunity for all authorized personnel to participate in the recreation programs sponsored.

An attempt made during the research to compute representative per capita expenditure rates for a meaningful comparison of station expenditures was considered unsuccessful. The problem encountered resulted from an apparent misunderstanding or lack of knowledge at many stations concerning the number of people participating in, or authorized to participate in a station's recreation program.

The Special Services Manual authorizes the following personnel to participate in programs and services financed with recreation funds:

1. Active duty military personnel and their dependents.

2. Naval reservists on active duty for training in excess of 72 hours and their dependents.

3. Members of selected reserve components, during periods of active duty training.

Provided facilities are adequate and subject to such restrictions as the commanding officer deems

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[1]Special Services Manual, Article 1240.

necessary, the following personnel are also authorized to use the facilities and equipment, and to participate in the programs supported by recreation funds, provided that such personnel have Navy Exchange privileges [prescribed by other regulations]:

1. Civilian employees of the Department of Defense traveling on official authorization and quartered on the station.

2. Civilian employees of the Department of Defense and their dependents and other civilian personnel associated with the Department if afforded full Navy Exchange privileges.

3. Red Cross uniformed paid personnel.

4. Patients hospitalized in Naval hospitals.

5. Military personnel of foreign nations.

6. Fleet Reserve and retired military personnel and their dependents.

7. Unremarried widows of military personnel and their dependents.

8. Members of Reserve components during periods of inactive duty training.

9. Members of the Public Health Service, Environmental Science Services Administration, and other organizations, when assigned to and serving with the Armed Forces.

In addition to the above, occasional guests of military personnel may be authorized by the commanding officer to use recreation facilities and equipment.[1]

In accordance with the foregoing, the basic responsibility of recreation funds is to provide appropriate programs for military personnel on active duty and their dependents. Other authorized personnel may be accommodated

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[1]Special Services Manual, Article 1130.

only if station recreation facilities are considered adequate.

A report of the number of personnel supported from station recreation funds was requested in the questionnaire. Table 16 contains a summary of the responses from a random sample of five activities from each size group.

The totals contained in column (2) represent the official record of naval personnel permanently assigned to the station on June 15, 1967. These totals do not include other military personnel who may have been assigned for temporary duty (such as students, reservists on training duty, or visiting air squadron personnel); nor do they include any military personnel who may have been assigned to other military activities in the immediate area. The totals reported in column (3) should be the same, or at least very nearly the same as column (2) totals.

The wide variations in the totals reported indicate that many stations do not really know how many authorized personnel they support with their recreation program. A per capita cost computation under these circumstances would be meaningless.

Program Analysis

Availability of Selected Facilities

Table 17 represents a summary of the availability of selected recreation facilities. The data was obtained in

TABLE 16

SUMMARY OF PERSONNEL SUPPORTED

Activity (1)	Military personnel assigned per BuPers records[1] (2)	Questionnaire response data: Military personnel permanently assigned (3)	Questionnaire response data: Military personnel from other stations (4)	Questionnaire response data: Dependents and retired Military personnel (5)
1. AA - 1	1,340	2,200	15,000	250
2. AA - 3	1,475	19,000	450	600
3. AA - 7	740	655	6,000	25,000
4. AA - 9	685	3,500	800	30,000
5. AA - 10	440	8,500	800	9,000
6. BB - 1	1,240	4,800	7,000	5,000
7. BB - 3	456	390	8,100	3,000
8. BB - 5	1,353	4,500	100	9,000
9. BB - 10	838	6,700	0	3,000
10. BB - 12	250	6,100	2,500	10,000
11. CC - 1	328	700	0	1,200
12. CC - 3	623	780	35	30
13. CC - 4	665	380	400	30
14. CC - 6	514	600	5,000	6,000
15. CC - 14	52	50	5	110

[1]Includes only naval personnel assigned to the main naval activity.

TABLE 17

SUMMARY OF SELECTED RECREATION FACILITIES AVAILABLE[1]

Recreation Facility	Total number Available[2]	Group AA		Group BB		Group CC	
		Number	%[3]	Number	%[3]	Number	%[3]
1. Theaters	199	10	100	18	90	14	93
2. Bowling Alleys	120	10	100	20	100	10	67
3. Golf Courses	65	10	100	15	75	3	20
4. Hobby Shops	310	10	100	17	85	11	73
5. Swimming Pools	264	10	100	15	75	6	40

[1]Activity grouping is based upon the following recreation fund income:

AA - $400,000 -- $1,000,000 (mean $674,000)
BB - 100,000 -- 399,000 (mean $201,000)
CC - 1,000 -- 99,000 (mean $ 35,000)

[2]Indicates number of facilities available at the total 220 stations.

[3]Percentages are based upon the following total number of stations which responded to the questionnaire:

Group AA - 10
Group BB - 20
Group CC - 15

response to questionnaire item B - 3. While the greatest differences are reported in the Golf program, the differences in the Hobby Craft program are considered to be of the greatest significance. The limitations on the Golf program may be a lack of available land area at small stations rather than a lack of funds. The Hobby Craft program, on the other hand, is nearly always a reflection of the amount of recreation funds available.

There has been a recent trend toward greater reliance upon nonappropriated funds to provide facilities normally considered to be the responsibility of appropriated funds. This probably accounts for the deficiency of many of these programs at small stations where recreation funds are more limited.

Organized Sports Supported

Organized sports form a vital part of nearly every station's recreation program. Since this program is often totally dependent upon recreation funds, the data summarized in Table 18 is concluded to be indicative of an effect of the current fund allocation system. Large stations report a good coverage in many sports, while the small stations can afford to support only a few of the more popular sports.

TABLE 18

SUMMARY OF ORGANIZED SPORTS SUPPORTED[1]

Sport	Group AA		Group BB		Group CC	
	Number	%[2]	Number	%[2]	Number	%[2]
1. Basketball	9	90	19	95	12	80
2. Softball	8	80	17	85	11	75
3. Football	8	80	13	65	8	53
4. Bowling	6	60	6	30	6	40
5. Volleyball	4	40	7	35	2	13
6. Boxing	4	40	5	25	1	7
7. Wrestling	4	40	4	20	0	0
8. Baseball	3	30	3	15	3	20
9. Tennis	4	40	1	5	0	0
10. Golf	2	20	3	15	0	0
11. Swimming	2	20	3	15	0	0
12. Track	2	20	2	10	0	0
13. Handball	2	20	1	5	0	0
14. Rifle-Pistol	2	20	1	5	0	0
15. Judo	1	10	2	10	0	0

[1]Activity grouping is based upon the following recreation fund income:

AA - $400,000 -- $1,000,000 (mean $674,000)
BB - 100,000 -- 399,000 (mean $201,000)
CC - 1,000 -- 99,000 (mean $ 35,000)

[2]Percentages are based upon the following total number of stations which responded to the questionnaire:

Group AA - 10
Group BB - 20
Group CC - 15

Additional Programs Desired

Item B - 5 on the questionnaire requested the recipient to "indicate additional programs or facilities which would be maintained if additional funds were available." A summary of the responses received is contained in Table 19. Since the questionnaire and the responses thereto were not official Navy correspondence, the additional programs listed may not represent "command thinking," but are, nevertheless, representative of a general desire.

There were no significant relationships detected between income groups and additional programs desired. The summary does indicate the desires for many additional facilities which are normally the financial responsibility of appropriated funds.

Financial Accounting

Standard accounting systems for stations performing accounting on a decentralized manual basis have been prescribed by the Comptroller of the Navy.[1] These instructions have been in effect in one form or another since around 1950. A rather comprehensive set of accounts and records is required to be maintained. Some deviations from the prescribed accounting records are permitted for "very small activities."

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[1]Department of the Navy, Accounting Handbook for Nonappropriated Funds.

TABLE 19

SUMMARY OF ADDITIONAL PROGRAMS DESIRED

	Program/Facility[1]	Group AA[2] Number[3]	Group BB[2] Number[3]	Group CC[2] Number[3]
1.	Hobby Crafts	4	6	5
2.	Field house/Gym	4	4	1
3.	Indoor Swimming Pool	0	4	2
4.	Golf	0	3	3
5.	Handball	1	3	2
6.	Horseback Riding	1	3	1
7.	Boating	1	3	0
8.	Camping	1	2	1
9.	Marina	2	1	0
10.	Roller Skating Rink	1	2	0
11.	Sauna Baths	1	1	1
12.	Outdoor Swimming Pool	0	1	1
13.	Bowling	0	0	2
14.	Theater	0	0	1
15.	Football	0	1	0

[1]The following additional programs were reported by only one station each: Volleyball, Squash courts, Billiards, Track, Trap/Skeet, Sailing, Beach cottages, Weight lifting, Ice skating rink, Boxing.

[2]Activity grouping is based upon the following recreation fund income:

AA - $400,000 -- $1,000,000 (mean $674,000)
BB - 100,000 -- 399,000 (mean $201,000)
CC - 1,000 -- 99,000 (mean $ 35,000)

[3]As reported by the total number of stations which responded to the questionnaire, as follows:

Group AA - 10
Group BB - 20
Group CC - 15

While the accounting instructions issued are relatively clear and straightforward, wide variations in the actual accounting records and procedures are common. Contributing to the cause for the wide variations are the varying degrees of accounting knowledge and interest of cognizant station personnel. At smaller stations the Special Services Officer sometimes maintains the accounting records personally and is frequently inexperienced. At larger stations a military or civilian bookkeeper is generally assigned.

Military personnel are transferred periodically, which may have serious effects on the quality of the accounting. Civilian personnel are generally more permanent and more competent as bookkeepers. However, they are sometimes left to their own personal accounting preferences and devices because of the Special Services Officer's preoccupation with the administration of the recreation programs (and often a lack of interest in accounting).

These personnel limitations and their possible effects on the accuracy of the accounting records and reports contribute to a reduction in the credibility of the financial reports submitted to the Commanding Officer of each station and to the Chief of Naval Personnel.

While the manual accounting system does permit adequate internal control and fund accountability, it does

not produce an effective management report. The Recreation Fund Financial Statement, shown in Figure 2, is the only report required from manual accounting stations. This statement does not report expenses in sufficient detail to permit a critical analysis of recreation fund utilization. Totals only are reported for each program category, and many programs may be combined under one category. Modification of this report to include additional detail is not feasible with the current manual accounting, and to expand the current manual system would only "add insult to injury."

Figure 2

Recreation Fund Financial Statement

RECREATION FUND FINANCIAL STATEMENT
NAVPERS 711 (NEW 4-54)

BALANCE SHEET		RECEIPTS AND DISBURSEMENTS	
XXXXXX	ASSETS	CASH BALANCE BEGINNING 15 Sept 66	166,640.36
1,575.00	CASH ON HAND Schd 1	RECEIPTS	XXXXXX
115,854.49	CASH IN BANK Schd 1	EXCHANGE OR SHIP'S STORE PROFITS	26,711.92
	LOANS OUTSTANDING	TRANSFERS FROM BUPERS	
17,693.45	OTHER ASSETS Schd 2	TRANSFERS FROM COMMAND OR UNIT FUND	
135,122.94	TOTAL ASSETS	TRANSFERS FROM CPO MESSES—EM CLUBS	
XXXXXX	LIABILITIES	MOTION PICTURES	
-0-	ACCOUNTS PAYABLE	SPORTS PROGRAM	
723.20	TAXES AND SALARIES PAYABLE Schd 3	RECREATION PROGRAM Schd 4	13,397.83
31,500.00	LOANS PAYABLE	HOBBY SHOP Schd 5	3,591.35
	ASSESSMENTS PAYABLE	VENDING MACHINES	
21,780.00	SPECIAL PROJECTS New Bowling Alley Reserve	~~LOAN REPAYMENTS~~ Employee taxes W/H Schd 11	1,625.21
	ALLOCATIONS OF CREDITS	OTHER Schd 6	4,973.64
	OTHER	A/C Rec. payment (after Sept 15)	4.50
54,003.20	TOTAL LIABILITIES	TOTAL RECEIPTS	50,304.45
81,119.74	NET WORTH	CASH BALANCE BEGINNING + RECEIPTS	216,944.81
		DISBURSEMENTS	XXXXXX
283,289.79	RECREATION PROPERTY ACCOUNT	TRANSFER TO COMMAND OR UNIT FUNDS	974.03
1331	AUTHORIZED ALLOWANCE	TRANSFER TO BUPERS	
1308	AVERAGE ON BOARD	TRANSFER TO CPO MESSES—EM CLUBS Vending Mach	817.40
		MOTION PICTURES	165.00
XXXXXX	CPO MESSES AND EM CLUBS ASHORE	VARSITY ATHLETICS	
1	NUMBER OF CPO MESSES	INTRA-MURAL ATHLETICS Schd 7	948.00
1	NUMBER OF EM CLUBS	GENERAL RECREATION Schd 8	12,689.66
		DANCES, PARTIES AND SHOWS	28.00
XXXXXX	NUMBER PERSONNEL PAID FROM APPROPRIATED FUNDS	MAGAZINES AND MISC. LIBRARY EXPENSE	1,036.63
20	FULL-TIME (INCLUDING MILITARY)	HOBBY SHOP Schd 9	8,828.93
-0-	PART-TIME (INCLUDING MILITARY)	RELIGIOUS PROGRAM	
		SHIP OR STATION NEWSPAPERS	460.80
XXXXXX	NUMBER PERSONNEL PAID FROM RECREATION FUNDS	ADMINISTRATIVE EXPENSE	1,966.79
2	FULL-TIME	SPECIAL PROJECTS	68,220.00
50	PART-TIME	LOADE	
		OTHER Tax Schd 10	1,227.57
		Participating Unit Alloc.	2,152.51
		TOTAL DISBURSEMENTS	99,515.32
		CASH BALANCE ENDING 15 Dec 66	117,429.49

CHAPTER IV

A REVISED MANAGEMENT SYSTEM

CENTRALIZED CONTROL

Centralized Accounting--A Giant Step Forward

Background

A centralized accounting system was initiated in 1965 with a programmed goal of incorporating all shore station recreation funds within three years. After the addition of the European-African area overseas stations on March 16, 1968, all but the very smallest of shore stations will be included in the system.

The major considerations which fostered the establishment of the centralized accounting system for Navy recreation funds included the following:

1. A general dissatisfaction by cognizant authorities with the many variations in procedures and the frequent inaccuracies in records and reports which were experienced with the manual accounting system.

2. The use of an excessive number of man-hours for routine tasks which could be performed efficiently on mechanized data processing equipment.

3. The inadequacy of the manual report as an effective management tool.

4. An excessive amount of funds which were being non-productively maintained in individual station's checking accounts (when considered in the aggregate).

The centralized accounting function was assigned to a newly organized field activity, the Bureau of Naval Personnel Nonappropriated Fund Accounting Unit. This field activity was established at the location of the Navy Ship's Store Office in Brooklyn, New York. This location was selected because of the close association of the Bureau of Naval Personnel as the management agency of Navy recreation funds, and the Navy Ship's Store Office as the management agency of the Navy Exchange system--the primary source of Navy recreation funds. In addition, the Navy Ship's Store Office already had installed mechanized data processing equipment which had excess time available for other programs.

Scope

The centralized accounting system implemented is a composite type which maintains individual accountability for each station. It is a double entry accounting system maintained on an accrual basis. Input data provided by mail from each station include the following:

1. Daily Cash Report. This report provides for the recording of departmental sales, all other cash income, bank

deposits, returned checks, and the amount of cash transferred from the local bank account to a central "Concentration Bank Account."

2. Duplicate bank deposit slips.

3. General Journal Vouchers. These vouchers are prepared to effect any accounting entries which are not logically recorded on any other prescribed form, such as correcting or adjusting entries for inventories, recording of employer's share of Federal Insurance Contribution Act taxes, recording of depreciation, or reporting the transfer of material to another Government activity.

4. Accrual Journal Vouchers. These vouchers are prepared at the end of each month in order to apply all charges to the month in which they were incurred.

5. Payroll Summary. This summary is prepared at the end of each pay period to report the distribution of payroll costs and employees' deductions.

Detailed general ledger accounts are maintained by the centralized accounting unit utilizing data processing equipment. The following financial reports are prepared from these accounts on a monthly basis:

1. Fund Status Report (Figure 3). This report is a cash flow type statement which reports beginning bank balance, cash receipts, cash disbursements, and ending bank balance. In addition, obligations against the bank balance are reported to indicate net funds available for disbursement.

BUPERS/6 (REV. 1/66)

Figure 3
BUREAU OF NAVAL PERSONNEL
(RECREATION FUND)
FUND STATUS

ACTIVITY:

This is Your Cash Report

PERIOD ENDING 15 OCT 1967

CHECKBOOK BALANCE B. O. M.		478,923.12
ADD CASH RECEIPTS FROM: (Local Cash Receipts)		
ACTIVITY DEPOSITS (DCR SO 04)	26,244.93	
ALL OTHER TRANSFERS IN (JV SO 84) (Exchange Profits)	50,143.88	
TOTAL CASH RECEIPTS		76,368.81
CHECKBOOK BALANCE BOM PLUS CASH RECEIPTS		555,311.93
LESS CASH DISBURSEMENTS AND FUNDS TRANSFERRED (Cash Disbursements)		
PURCHASES OF INVENTORY (RETAIL DEPTS)	8,509.66	
LESS PURCHASE DISCOUNT	114.09-	
PAYROLL	28,260.84	
LESS PAYROLL DEDUCTIONS	4,859.96-	
DIRECT DEPARTMENTAL EXPENSE (EXCEPT PAYROLL)	6,626.09	
GENERAL EXPENSE (EXCEPT PAYROLL)	12,369.79	
PURCHASES OF FIXED ASSETS	579.35	
LIQUIDATION OF LIABILITIES, LOANS, RESERVES	5,918.69	
MISCELLANEOUS	100.80	
FUNDS TRANSFERRED		
TO BUPERS (CENTRAL REC. FUND)		
TO MESSES-CLUBS-UNITS-COMMANDS	2,607.91	
TOTAL CASH DISBURSEMENTS AND FUNDS TRANSFERRED		59,998.48
CHECKBOOK BALANCE E. O. M. (Cash in Bank)		495,313.45
LESS OBLIGATIONS (Cash Obligated)		
ACCRUED		
PURCHASES OF INVENTORY (RETAIL DEPTS.)	260.00	
DIRECT DEPARTMENTAL EXPENSES	4,660.94	
GENERAL EXPENSES	28,236.05	
CURRENT LIABILITIES	606.23	
RESERVES		
FOR FACILITY IMPROVEMENT	389,548.14	
OTHER		
TOTAL ACCRUED EXPENSES, LIABILITIES AND RESERVES		423,311.36
FUNDS AVAILABLE (You Have This Much Left)		72,002.09
LOANS PAYABLE (Future Commitments)		300,000.00
OPEN ORDERS		~~10,026.46~~

3

2. Summary Operations Statement (Figure 4). This statement is a detailed summary by account of income and expenses. This report segregates direct recreation program expenses from general administrative expenses.

3. Departmental Operations Statement (Figure 5). This statement is a detailed analysis of receipts and expenses for each recreation program.

4. Detail Ledger (Figure 6). This report contains a detailed analysis of all transactions recorded for each account (departmental and administrative) for the past month.

Each report is forwarded to the Commanding Officer of each station monthly. A copy of each of the first three reports is provided to the Chief of Naval Personnel.

In addition to providing the input data previously itemized, each station is required to maintain an accounts receivable ledger and payroll records.

The following records and reports, which are required to be maintained by stations operating with a manual accounting system, are no longer required after a station is included in the centralized accounting system:

1. Cash Receipts and Disbursement Journal
2. Purchases Journal
3. Sales Journal
4. General Journal

Figure 4

Summary Operations Statement

BUREAU OF NAVAL PERSONNEL (RECREATION FUND) FOR:

SUMMARY OPERATIONS STATEMENT

BUPERS-9 (REV. 1/60)

This is Your Profit and Loss Statement

Monthly/Year To Date Comparative Figures

ACTIVITY NO.: (2)

PERIOD ENDING: 15 OCT 1957

	NO	ACCOUNT NAME	CURRENT MONTH THIS YEAR	CURRENT MONTH LAST YEAR	PLANNED	YEAR TO DATE THIS YEAR	VARIANCE + OR - ACTUAL TO PLANNED	YEAR TO DATE LAST YEAR
INCOME FROM	301	NAVY EXCHANGE	50,143.88	66,773		229,231.39		245,247
	302	BUPERS (CENTRAL REC. FUND)						
	303	COMMAND OR UNIT FUNDS						
	304	MESSES AND CLUBS						
	305							
	306	OPERATIONS	23,313.50	22,530		91,752.34		80,776
		TOTAL INCOME	73,457.38	89,303		320,983.73		325,023
DIRECT DEPARTMENTAL EXPENSE	309	COST OF SALES	7,036.24	5,802		23,312.19		18,953
	310	EQUIPMENT ACQUISITION AND MAINTENANCE						
	311	PAYROLL	18,630.57	14,013		93,333.37		84,857
	312	OFFICIALS AND CLINICS	210.00	444		1,260.50		1,478
	313	SUPPLIES - CONSUMABLE	666.04	939		5,956.98		15,853
	314	BOOKS, MAGAZINES, AND STA	413.63	3,152		1,726.92		6,716
	315	FACILITY MAINTENANCE	2,016.02	8,495		7,529.49		29,937
	316	ENTERTAINMENT	338.44	2,793		10,095.62		13,360
	317	UTILITY EXPENSE						
	318	MOTION PICTURE RENTALS AND TRANSPORTATION	1,641.97	2,870		9,187.24		10,024
	319	MISCELLANEOUS DIRECT EXPENSE	344.00	506		2,576.76		1,750
	320	TOURNAMENTS	1,616.08-			3,715.02		
		TOTAL DIRECT DEPARTMENTAL EXPENSE	29,680.63	39,034		158,714.09		182,688
		INCOME LESS DIRECT DEPARTMENTAL EXPENSE	43,776.55	50,269		162,269.64		143,335
GENERAL EXPENSE	321	PAYROLL - ADMINISTRATIVE	4,580.20	4,053		19,622.59		17,665
	322	PAYROLL - MAINTENANCE	6,225.06	7,092		27,579.76		31,081
	323	STATIONERY AND CONSUMABLE SUPPLIES	63.80	68		857.84		312
	324	EMPLOYEE BENEFITS - INDIGENOUS						
	325	REPAIRS, REPLACEMENTS, AND MAINTENANCE	925.50	268		6,722.35		3,983
	326	INSTALLATION, RENOVATION AND ALTERATION		1,300				746
	327	GROUP LIFE INSURANCE CONTRIBUTIONS - EMPLOYER						
	328	RETIREMENT ANNUITY CONTRIBUTIONS - EMPLOYER						
	329	FICA TAXES - EMPLOYER	934.09	805		5,194.35		4,455
	330	GROUP COMPREHENSIVE MEDICAL INSURANCE CONTRIBUTIONS EMPLOYER						
	331							
	332	UTILITY EXPENSE						
	333	FREIGHT EXPENSE, TRANSPORTATION	1.10	71		106.65		359
	334	CASH - SHORT OR OVER	63.21-			240.76-		
	335	TRAVEL AND PER DIEM				128.60		79
	336	TELEPHONE, TELEGRAPH AND POSTAGE						
	337	ASSESSMENTS	9,507.19	12,659		40,593.55		44,328
	338	PUBLICITY EXPENSE						
	339	MISCELLANEOUS EXPENSE - GENERAL	31.00	654		124.00		753
	372	INSURANCE EXPENSE						
	375	GASOLINE AND AUTOMOTIVE VEHICLE EXPENSE	257.11	847		2,850.71		4,216
	378	DEPRECIATION OF PROPERTY (FIXED ASSETS)	579.35	1,657		4,791.75		9,368
	380	GRANTS	650.00	650		2,600.00		3,114
	391	EXPENSES - BUPERS NAFAU						
	397	GAIN ON SALE OF FIXED ASSETS (PROPERTY)						
		TOTAL GENERAL EXPENSE	23,691.19	30,125		110,931.39		120,446
		GROSS RESULTS FROM OPERATIONS	20,085.36	20,144		51,338.25		22,887
OTHER INCOME	344	PURCHASE DISCOUNT	114.09	46		504.55		297
	345	INTEREST INCOME						
	346	MISCELLANEOUS INCOME	217.64	140		1,167.60		4,003
		TOTAL OTHER INCOME	331.73	186		1,672.15		4,300
FUNDS TRANSFERRED OUT	381	TRANSFERS TO BUPERS (CENTRAL REC. FUND)						
	382	TRANSFERS TO MESSES - CLUBS - UNITS - COMMANDS	27,617.86	3,480		35,589.17		14,191
		TOTAL FUNDS TRANSFERRED OUT	27,617.86	3,480		35,589.17		14,191
		NET RESULTS FROM OPERATIONS	7,200.77-	16,850		17,441.23		12,696

See Page 3 for Breakdown

Your Income

Your Expenses

This is How You Made Out

Figure 5

Departmental Operations Statement

(3)

BUREAU OF NAVAL PERSONNEL
(RECREATION FUND)

DEPARTMENTAL OPERATIONS STATEMENT

FOR: MC

ACTIVITY

PERIOD END

Stock/Sales Ratio

Details On Your Programs

Income vs Expenses

How Your're Spreading Your Money

(1) PERS 10 (REV. 3-66)

DEPARTMENT		DOLLARS ONLY		% TO TOTAL	EXPENDITURES DOLLARS ONLY						
		E O M INVENTORY A/C 114	CASH RECEIPTS A/C 302		FOR MAINTENANCE A/C 310	PAYROLL A/C 311	SUPPLIES - CONSUMABLE A/C 313	FACILITY MAINTENANCE A/C 318	ALL OTHER DIRECT EXPENSE A/C'S 314 315 316 317 319 320	TOTAL MONTHLY DIRECT EXPENSE	TOTAL YEAR TO DATE DIRECT EXPENSE	% TO TOTAL
A1 BOWLING (RETAIL)	A1	4618	1493	64					1418	1418	4985	31
A2 GOLF (RETAIL)												
B1 AUTOMOTIVE (RETAIL)	B1	6280	1866	80		1921		72	1555	3548	13995	88
B2 BOAT BUILDING (RETAIL)												
B3 CERAMICS (RETAIL)	B3	4632	1530	57		631			1109	1740	5100	32
B4 LEATHER CRAFT (RETAIL)												
B5 MODELS (RETAIL)	B5	7261	2457	105		615			2048	2663	9464	60
B6 PHOTOGRAPHY (RETAIL)												
B7 WOODWORKING (RETAIL)	B7	5653	1249	54		558		136	1041	1737	5953	38
B8 ELECTRONICS (RETAIL)	B8	1041	199	9					167	167	385	2
B9 OTHER (RETAIL)												
TOTAL HOBBIES (RETAIL)		24867	7101	305		3725		210	5920	9855	34897	220
10 MOTION PICTURES	10		5031	216		1936			1642	3578	17686	111
11 BASEBALL												
12 BASKETBALL												
13 SOFTBALL	13								1616-	1616-	5080	32
14 VOLLEYBALL												
15 BOXING												
16 LITTLE LEAGUE	16										690	5
17 SOCCER												
18 SWIMMING	18					1056		47		1103	17219	108
19 TENNIS	19										43	
20 TOUCH FOOTBALL	20								210	210	323	2
21 TRACK & FIELD												
22 WRESTLING												
23 OTHER SPORTS	23		362	16		1143	90	708		1941	8361	55
TOTAL ORGANIZED SPORTS			362	16		2199	90	755	1406-	1636	31476	198
31 BOATING	31		4			876	61			937	8017	51
32 HUNTING	32		160	7					160	160	163	1
33 FISHING	33		185	8					185	185	1306	8
34 CAMPING	34		152	7		900	7			907	6555	40
35 POOL TABLES, BILLIARDS	35		981	42		326	159	315		800	2050	13
36 ATHLETICS (NOT ORG. SPORTS)												
37 PICNIC AREAS	37					466		128		594	2629	17
38 RIFLE AND PISTOL	38						99			99	199	1
39 TELEVISION	39					466	118			384	2881	18
40 DRAMATICS												
41 STABLES												
42 TEEN CLUBS												
43 SCOUTING												
49 OTHER GEN'L RECREATION	49								1047-	1047-	1499	9
TOTAL GENERAL RECREATION			1482	64		3934	444	443	702-	3219	24999	158
50 BOWLING	50		6654	285		4932	132	273		5327	20798	131
55 GOLF			1191	51		1215				1521	6590	42
60 DANCES, PARTIES, & S										1385	9032	57
65 LIBRARIES	65					1132				1575	6531	41
80 STATION NEWSPAPERS	80					460	10			470	1721	10
ACTIVITY TOTAL		29485	23314			18633	666	2016	8371	29680	158715	

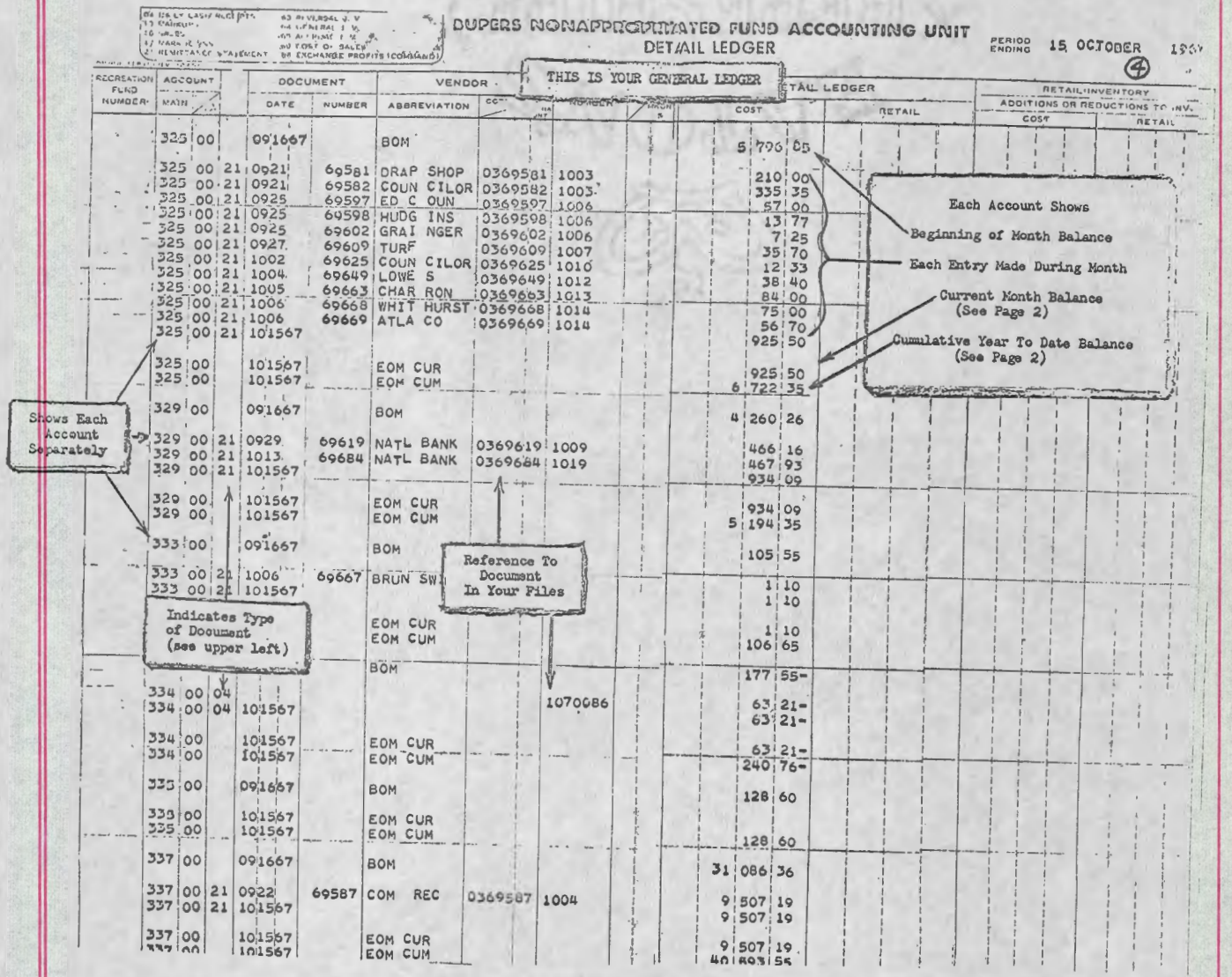
Ties In With, Acct 302 - Page 2

Ties In With Total Dept. Exp Page 2

3

Figure 6

Detail Ledger


DUPERS NONAPPROPRIATED FUND ACCOUNTING UNIT
DETAIL LEDGER
PERIOD ENDING 15 OCTOBER 19
THIS IS YOUR GENERAL LEDGER
Each Account Shows
Beginning of Month Balance
Each Entry Made During Month
Current Month Balance (See Page 2)
Cumulative Year To Date Balance (See Page 2)
Shows Each Account Separately
Reference To Document In Your Files
Indicates Type of Document (see upper left)

5. General Ledger
6. Trial Balances (monthly).
7. Bank Reconciliation Statements (monthly)
8. Financial Statement (quarterly)

Analysis

The following advantages are considered to have resulted from implementation of the centralized accounting system:

1. Reduction of man-hours required at the station level for routine accounting procedures.

This is a generalized conclusion which was not conclusively affirmed by the responses received to questionnaire item number A - 6, "Indicate any decrease (or increase) in the number of man-hours required for the accounting function since the implementation of the central accounting system at BUPERS NAFAU in Brooklyn."

The following is a summary of the responses received:

DECREASE	9
INCREASE	7
NO CHANGE	29

The reason for the large number of "no change" responses can be attributed to the fact that the majority of stations employ but one bookkeeper, and some local record keeping and voucher transmittals are required under the

centralized accounting system. However, the relief from the majority of routine record keeping has resulted in an increase in time available for other administrative requirements. The transfer of the majority of the accounting function to the centralized accounting activity also provides more administrative time for many Special Services Officers.

2. Increased standardization of accounting classifications and procedures

All stations included in the centralized accounting system operate under one set of instructions, and all utilize the same procedures and forms.[1] The following is a summary of the responses received to question number A - 10 on the questionnaire, "Are the instructions contained in the accounting handbook (NAVSO P-2460) adequate?"

YES	35
NO	9
NO REPLY	1

The only justifications reported for the dissatisfaction with the accounting handbook instructions were a lack of illustrations and vague definitions of some account classifications. In addition, a significant number of responses indicated a desire for periodic short training courses or conferences for station accounting personnel.

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[1] U. S. Department of the Navy, Centralized Accounting Handbook for Navy Recreation Funds.

3. Increased effectiveness of accounting reports for management purposes.

The reports prepared by the centralized accounting activity contain a significantly greater amount of detail than do the reports prepared under the manual accounting system. For example, the classification "Hobby Shop" on the manual report (Figure 2) may be reported in nine different categories on the mechanized report; the two classifications of "Varsity Athletics" and "Intra-mural Athletics" on the manual report may be identified to any of thirteen different sports on the mechanized report.

In response to question number A - 7 on the questionnaire, "Do the reports prepared by BUPERS NAFAU contain adequate information in an understandable form?," the following results were received:

YES	38
NO	5
NO REPLY	2

The only justification offered for negative answers to this question was that the mechanized reports do not facilitate local audits. More specific complaints concerning the auditing problems were not given.

The following is a summary of responses received to question number A - 9, "Do you prepare any additional

financial reports locally?"

YES 14

NO 30

NO REPLY 1

The only significant local additions to the mechanized reports were a projected cash flow statement and a statement reporting budgeted and actual figures and the deviation from the budgeted amount. This budgeted versus actual analysis is programmed for the mechanized reports, but has not been implemented (see Figure 4).

4. Increased interest income from the establishment of a centralized bank account.

Establishment of a "Concentration Account" eliminated the need to maintain checking account balances in individual station bank accounts, and thereby permitted a reduction in the overall total of funds maintained in non-interest bearing demand accounts. Additional funds are now available for deposit in interest-bearing accounts.

Centralized Financial Control--The Next Logical Step

The Chief of Naval Personnel and the majority of stations which were canvassed agree that the centralized accounting system has been successfully implemented and has provided an avenue toward improved management of Navy recreation funds. The logical question for top management now is, "Should centralized management and control be expanded?" A

summary and analysis of the planning and budgeting functions are given here to justify the recommended solution.

Planning

Planning is currently left to the initiative of each station's commanding officer. Since these officers are normally assigned to any one station for a period of one to three years, planning seldom extends beyond a three-year period. The planning objective of each station commanding officer is probably to accomplish as much as possible during his assigned tour of duty. The result of this attitude is nearly a total interest in short-range objectives.

With the increasing need and application of recreation funds for the financing of facilities which were formerly funded entirely with appropriated funds, there is a definite need for long-range planning on a system-wide basis. The logical level for this planning is at the Bureau of Naval Personnel.

There currently is a lack of planning for station recreation programs at the bureau level. There is no information available to the bureau regarding the condition and the replacement needs of station recreation facilities. This lack of central planning also results in a duplication of facilities in some locations.[1]

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[1]Gabrielson, M. Alexander, The Navy's Special Services Program, a report to the Assistant Chief of Naval Personnel for Morale Services, June, 1966, p. 12.

There is currently a significant gap between the all-encompassing recreation programs available at large stations and the "lack-luster" offerings of some small stations. In addition, the relatively short tour of duty for station commanding officers frequently results in a new commanding officer "inheriting" an obsolete or otherwise unsatisfactory facility which requires a sizeable outlay of funds for modernization. Central planning is the only feasible solution to this management deficiency. Planning for major expenditures of recreation funds can be accomplished only at the bureau level if maximum effectiveness is to be achieved.

Centralized Budgeting and Fund Control

There is currently no centralized budgeting for Navy recreation funds. A station budget, if prepared, represents a planned allocation of estimated income. Such a budgeting procedure is adequate under the current fund distribution system. However, the current fund distribution system results in a gross imbalance of recreation funds available at various stations in proportion to the number of personnel supported. Additionally, personal whims of commanding officers or special services officers are permitted to influence the application of station recreation funds.

Centralized budgeting of Navy recreation funds would permit a more equitable distribution and expenditure of

available funds. Inherent in the centralized budgeting of Navy recreation funds are centralized control and distribution of funds. Distribution based upon station needs would be substituted for the "return of generated profit" principle which currently exists. Under the current management system, Navy Exchange profit is in no way related to the amount of recreation funds needed. Navy Exchange profit goals are currently established independently of any expressed need for recreation funds. Accordingly, programming of recreation fund expenditures is based upon anticipated Navy Exchange profit. Notwithstanding the legislative limitations on generation of profits, a situation appears to exist in which the "cart is leading the horse."

The original intention underlying the establishment of the ship's store operation was to provide the material needs of military men at a reasonable cost. The generation of profit from the ship's store operation was secondary. The increased scope of the recreation program has resulted in a greater emphasis upon profits generated by the ship's store and the Navy Exchange operations. Consequently, these operations have now assumed a two-fold mission: providing material and services at a reasonable cost and generating profits for Navy recreation funds.

This second objective was acknowledged as early as 1945 when a directive was issued by the Secretary of the

Navy requiring the Chief of Naval Personnel to furnish an estimate of the total amount of resale profits desired annually for the welfare, amusement, comfort, and contentment of Navy personnel.[1] Without centralized budgeting, such an estimate cannot, and apparently has not ever been provided. Consequently, the Navy Ship's Store Office has established merchandise mark-up percentages which will generate sufficient funds to pay operating and administrative costs and ensure some amount of net profit for transfer to recreation funds. The net profit generated in Fiscal Year 1967 was 6.6 percent of total sales (see Table 1).

The goal of Navy Exchange profit determination based upon recreation fund needs is an active and continuing problem. In a letter dated January 31, 1966, the Commanding Officer of the Navy Ship's Store Office reported the following to the Chief of Naval Personnel:

> The receipt of the above letter [different subject] prompts me to solicit your aid and advice in dealing with another area of continuing and major concern which I feel requires a concerted joint effort on both our parts for solution.
>
> This area deals with the need for a more precise determination of Navy Exchange profit requirements for recreation purposes. During fiscal years 1960 to 1965, Worldwide Navy Exchange Sales increased 60% from $258 Million in Fiscal Year 1960 to $414 Million in Fiscal Year 1965. Worldwide Sales in Fiscal Year 1966 should approximate $477 Million. In the same years, profits for recreation purposes distributed to local Commands increased from $13.5 Million for Fiscal Year 1960, to $20.7 Million in

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[1]Data obtained from the historical files, Navy Ship's Store Office Representative, Washington, D. C.

> Fiscal Year 1965, an increase of 55%. Profits paid to the Central Recreation Fund increased from $1.9 Million in Fiscal 1960 to $4.3 Million in 1965, an increase of 125%. These dollar increases were achieved while total Navy on board strength remained relatively constant. I am concerned that one of two circumstances prevail--either the profits paid in 1960 were not sufficient or adequate to support our Recreation Programs or present profit distribution is in excess of local Command needs. I feel that a review and projection of annual Navy Recreation Fund dollar requirements for recreation purposes is in order. Such determination would enable my staff to administratively respond to your annual budgetary requirements, insure maximum compatibility of Exchange pricing policies with profit motives, as well as maximize the impact of Navy Exchanges on the morale of Naval personnel by lowering selling prices and/or providing additional services.[1]

The author speculates that the additional recreation funds have resulted in a significant increase in the expenditure of recreation funds for physical facilities which normally are considered the financial responsibility of appropriated funds. In addition, the per capita expenditure rate very likely increased at the stations which experienced an increase in Navy Exchange profits. The paradoxical result of the apparently desirable increase in recreation funds is that the stations which generate the majority of the increased profits are not the stations which are lacking in basic recreation programs.

Centralized budgeting would provide top management with the necessary background data that could be used to

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[1]Letter from Rear Admiral Charles A. Blick, Commanding Officer,Navy Ship's Store Office to Vice Admiral B. J. Semmes, Jr., Chief of Naval Personnel, January 31, 1966.

determine total requirements for Navy recreation funds. The total fund requirements could then be translated into meaningful profit objectives for the Navy Exchange resale system.

The natural counterpart to centralized budgeting is centralized fund control and distribution by the Chief of Naval Personnel. Centralized fund distribution would ensure that all stations were provided sufficient funds to maintain a basic recreation program.

The author acknowledges that centralized budgeting and fund distribution for Navy recreation funds is easier said than done. However, the increase in total fund effectiveness which will result is considered sufficient compensation for the increased administrative effort required for centralized control.

A recent effort was made by the Chief of Naval Personnel to determine total recreation fund requirements. All stations were directed to submit a "Fund Operating Budget" reflecting estimated income and expenditure for the next three fiscal years. The directive included the following discussion:

> In recent years, nonappropriated recreation funds have been called upon in increasing amounts to support the Navy-wide special services program. It appears that this trend will continue in the foreseeable future. As a result, the future cash requirements for operating special services programs is of growing importance in advance planning in order that steps may be taken to

> insure availability of sufficient funds when required. This would include evaluation of fund raising capabilities of nonappropriated fund activities including exchanges and requesting additional appropriated funds if those capabilities prove insufficent to meet requirements.[1]

A copy of the budget form used is included as Figure 7.

A review of the budgets submitted indicated that nearly all stations reported total estimated expenses which reflected a "remarkable resemblance" to the total estimated income. This is not surprising in view of the "use it or lose it" attitude which is most common.

The foregoing budget is the first-known requirement for submission of station recreation fund budgets beyond the commanding officer level. The author doubts that the data reported can be meaningfully employed without receipt of additional supporting details. Also, if centralized fund allocation were desired, an equitable distribution based upon the data contained in the Fund Operating Budget submitted would be difficult.

A more detailed budget format is recommended for implementation of centralized fund distribution. A suggested beginning format is contained in Figure 8. The adjective "beginning" is used to acknowledge that significant changes may be required prior to implementation or after a trial

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[1]U. S. Department of the Navy, Bureau of Naval Personnel Notice 7010. Subject: Special Services Non-appropriated Fund Operating Budget, September 28, 1967.

Figure 7

Summarized Recreation Fund Operating Budget

SUMMARIZED RECREATION FUND OPERATING BUDGET
(IN THOUSANDS)

NAME AND LOCATION OF ACTIVITY

COMMAND FUND ADMINISTRATOR

Chief of Naval Personnel (Pers G13)
Department of the Navy
Washington D. C. 20370

INSTRUCTIONS

GENERAL: This report covers cash requirements for regular day to day operations only. The amount reported as estimated expense does not necessarily have to equal estimated income. Fund requirements for special projects (new construction, enlargement, improvement or replacement) are not to be reported since that information is already available to the Chief of Naval Personnel

AMOUNTS: Amounts shall be reported to the nearest thousand. $2100.00 shall be indicated as $2. $2500.00 as $3.

CATEGORIES: The categories indicated below are tied in to the format of the reports provided to activities operating under the centralized accounting system for recreation funds ashore. Activities not operating under this system should use only those categories that readily fit in with records currently maintained.

REMARKS: To be used as necessary for clarification of the tiems reported below.

ESTIMATED INCOME	(AMOUNT IN THOUSANDS)		
	FISCAL YR. 69	FISCAL YR. 70	FISCAL YR. 71
Navy Exchange			
All other sources			
Total Estimated Income			
ESTIMATED EXPENSES			
Payroll (Admin. and Maintenance)			
Installation, Renovation and Alteration			
Retail Operations			
Organized Sports			
General Recreation			
Bowling			
Golf			
Dances, Parties and Shows			
Motion Pictures			
All others			
Total Estimated Expenses			

REMARKS

SIGNATURE | DATE

Fig. 8.--Recreation Fund Operating Budget (Recommended Format)

STATION _____ FISCAL YEAR _____

	INCOME	EXPENSE
SECTION A		
Non-income Producing Programs:		
(Per capita fund allocation based upon total military personnel assigned)		
1. Number station personnel _____		
2. Personnel assigned to supported activities* _____ (*Must be stations which do not maintain separate recreation funds--Attach statement listing stations and number of military personnel assigned)		
3. Total assigned military personnel (item 1 + 2) _____		
4. Total amount requested based upon per capita rate of $ _____ (Use current per capita rate reported by BUPERS)		$ 0.00
SECTION B		
Income-producing Programs:*		
(*Attach itemized list of estimated income and expenses for each program, utilizing accounts contained in NAVSO P-2460)		
1. Motion pictures	$ 0.00	0.00
2. Bowling	0.00	0.00
3. Golf	0.00	0.00
4. Hobby Crafts: a. Automotive b. Boat Building c. Ceramics	0.00	0.00

(Continuation of Budget Format)

	INCOME	EXPENSE
d. Electronics		
e. Leather Craft		
f. Models		
g. Photography		
h. Woodworking		
i. Other		
j.		
k.		
5. Boating		
6. Hunting		
7. Fishing		
8. Camping		
9. Billiards		
10. Riding Stables		
11. Swimming Pool--Indoor		
12. Swimming Pool--Outdoor		
13. Other--		
14.		
15.		
TOTAL SECTION B INCOME & EXPENSES	$ 0.00	$ 0.00

SECTION C

Administrative & General Expenses:*

(*Attach itemized list of estimated expenses for each category)

1. Payroll--Administrative	0.00
2. Payroll--Maintenance	0.00
3. Stationery and Supplies	0.00

(Continuation of Budget Format)

	INCOME	EXPENSE
4. Repairs, Replacement, and Maintenance		$ 0.00
5. Automotive		0.00
6. Other--		
7.		
8.		
9.		
10.		
TOTAL SECTION C EXPENSES		0.00

SECTION D

Other Income:

1.	$ 0.00	
2.	0.00	
3.		
4.		

SECTION E

Other Expenses:

1.		$ 0.00
2.		0.00
3.		
4.		
F. GRAND TOTAL ALL INCOME & EXPENSES	0.00	0.00
G. NET RESULTS FROM OPERATIONS (Difference between total income & expenses; excludes estimated income from Navy Exchange profits)		0.00

(Continuation of Budget Format)

	INCOME	EXPENSE
SECTION H		
Capital Improvements:		
(Identify all desired installation, renovation and alteration projects including Navy Exchange facility Projects, support with separate detailed cost analysis and justification for each project)		
1.		$ 0.00
2.		
3.		
4.		
5.		
6.		
7.		
8.		
TOTAL CAPITAL IMPROVEMENTS		0.00

period. The format does indicate the author's attitude and approach to the central budgeting and fund distribution theory.

The recommended approach to a budget format acknowledges that a total distribution of recreation funds based solely upon a per capita allowance would not be equitable. Notwithstanding the wide variations in the estimates of personnel supported, as indicated by the sample data contained in Table 16, it is believed that a per capita fund allocation should be made for certain non-income producing programs. The per capita computation should be based upon the Bureau of Naval Personnel's official record of military personnel assigned. The per capita rate should be determined annually by the Chief of Naval Personnel based upon total estimated income. The per capita allowance would ensure that all stations maintain a standard basic recreation program for all military personnel assigned.

Additional funds should be allocated for the operation of additional recreation programs approved by the Chief of Naval Personnel. Theoretically, all additional programs would have required funding from the Chief of Naval Personnel (either appropriated or nonappropriated funds) prior to their implementation. Once the Chief of Naval Personnel had approved the additional programs and facilities, he would be morally obligated to support their continued operation with recreation funds.

Total estimated income would be determined from Navy Exchange sales forecasts made by the Commanding Officer, Navy Ship's Store Office.

In order to evaluate the appropriateness of estimated income and expenses for the various recreation programs, the Chief of Naval Personnel would have to establish standard income and cost figures based upon such criteria as size of facilities and number of personnel accommodated.

Standards or recommended procedures governing the use of supervisory personnel in the various recreation programs would have to be developed, i.e., military, civilians paid from appropriated funds, or civilians paid from nonappropriated funds.

Fees charged for the use of recreation facilities should be standardized for all stations. Data collected in response to questionnaire item B - 3 indicated that a wide variation exists among stations regarding the assessment of fees for the use of recreation facilities. Personnel assigned to small stations should not have to pay a fee for recreation activities which are available free or at a lower fee to personnel at large stations. Centralized budgeting and fund control would correct this inequity which now exists.

After a station's operating budget had been approved by the Chief of Naval Personnel, one copy with a fund

authorization statement would be returned to the station to be used as an operating guide. One copy would be forwarded to the centralized accounting activity. As noted earlier, the established reports include provisions for reporting planned receipts and expenditures, and the variations from actual amounts (Summary Operations Statement, Figure 4). Variations reported could be used by the station fund administrators to review the operation of their recreation program for possible problem areas. The Chief of Naval Personnel's review of the variations in the actual income and expenditures from the approved budget amounts could be used to investigate particular station operations or adjust the planning figures as appropriate.

Centralized budgeting and fund distribution by the Chief of Naval Personnel should encompass all funds available for Navy recreation programs, including those funds currently maintained by the Commanding Officer, Navy Ship's Store Office for loans to station commanding officers for construction and alteration to Navy Exchange facilities. As previously noted, repayment of these loans must be made from Navy Exchange profits. In addition, the fact that the Navy Ship's Store Office funds result from an excess of assessments over administrative costs dictates that such excesses should be returned to the net profit available for distribution (see Table 2).

Return of these excess assessment funds would naturally require a revised outlook on the part of the Chief of Naval Personnel concerning recreation fund allocations. The Navy Exchange facilities are as much a part of the morale, welfare, and recreation program as are such facilities as swimming pools and bowling alleys. For some personnel, the Navy Exchange facilities may represent the only recreation fund sponsored activity that is utilized. Accordingly, each major project must be considered on its own merits and need when reviewed for funding by the Chief of Naval Personnel.

Administrative procedures currently utilized for Enlisted Men's Club profits are considered adequate and recommended for continuation in the present form except that the Chief of Naval Personnel should control expenditure of these funds also.

CHAPTER V

SUMMARY

Navy recreation funds originated in the early years of the United States Navy when ships' stores were established to overcome a general dissatisfaction with the "bumboat" peddlers who charged exorbitant prices for inferior merchandise. From its early beginnings in the 1800's, the ships' store operation has grown to be a multi-million dollar resale operation which now contributes more than thirty-five million dollars annually to support welfare and recreation programs in the United States Navy.

Through its years of growth and development, the Navy recreation fund management system has evolved into a decentralized system with two top-management agencies--the Bureau of Naval Personnel and the Navy Ship's Store Office. The commanding officer of each station originally controlled the total amount of profit generated by his ship's store.

During World War II, the need arose for a central agency to settle the outstanding ships's store accounts for ships lost at sea. A central fund was established for this purpose under the cognizance of the Chief of Naval Personnel. A small assessment based upon ship's stores sales was levied

by the Chief of Naval Personnel to provide an income for the Central Recreation Fund. With the decreased and eventual near-elimination of the financial demands on the Central Recreation Fund for settlement of outstanding accounts of ships lost at sea, the Central Recreation Fund resources were devoted to other uses. Loans and grants were made from the Central Recreation Fund to assist in the establishment and development of recreation programs. Responsibility for payment for motion picture films for all ships and overseas stations has been assumed by the Central Recreation Fund. In addition, this fund now finances the cost of a central insurance program for all recreation activities in the Navy.

The increased popularity and resultant growth of the ship's store system resulted in the establishment of a central management agency, the Navy Ship's Store Office, in 1946. To finance the cost of operation of this agency, another assessment was levied on ship's store sales. Since the total cost of operation had to be funded from this source of income, the assessment was established at a more-than-sufficient rate. The excess of the assessment over the cost of operation was used to establish an improvement fund which is used to provide loans to stations for improvements and alterations to Navy Exchange facilities. Repayment of these loans by the applicable stations results in a decrease in funds available for other recreation needs.

The result of the growth and development of the Navy recreation fund is that the Chief of Naval Personnel, who is charged by Navy Regulations with the responsibility for the overall administration of the Navy's morale, welfare, and recreation program, controls only a relatively small portion of the funds which support the program. Stations which are fortunate enough to realize large Navy Exchange sales because of a large number of dependents, transient military personnel and retired military personnel in the area, reap the benefits of these increased sales in the form of expanded recreation programs. Small stations which experience a low sales volume in their Navy Exchange are unable to finance a recreation program which might be considered a basic minimum program.

A centralized accounting system which has been recently implemented has opened the door to centralized distribution and control of Navy recreation funds. The road to improved management of Navy recreation funds has now been mapped. Completion of this move to centralized control is now in the hands of the Chief of Naval Personnel.

CHAPTER VI

CONCLUSIONS

Centralized management of Navy recreation funds will certainly result in more effective utilization of the total recreation funds available in the Navy. The following improvements will result from implementation of centralized budgeting and allocation of Navy recreation funds:

1. Adequate basic recreation programs can be established at all stations, even though Navy Exchange profits at some stations may be inadequate to support a basic program.

2. Recreation funds can be allocated to individual stations based upon approved program needs rather than station-generated profits.

3. Patron charges for use of recreation facilities can be standardized at all stations.

4. Considerable savings can be realized from the maintenance and operation of standard recreation programs and the elimination of any "pet programs" which may have been implemented by a station commanding officer or special services officer and later discontinued by his successor.

5. Total recreation system fund requirements can be

determined by the Chief of Naval Personnel and used to establish realistic profit objectives for the Navy Exchange operation.

6. Recreation facilities planning can be extended beyond the normal tour of a station commanding officer.

A Navy recreation fund distribution system based upon the overall needs of all stations will provide a greater amount of benefits to a larger number of personnel. Detailed operating budgets would provide the basis for a more equitable fund distribution as well as the establishment of meaningful profit objectives for the Navy Exchange system. The preparation of an operating budget by each station commanding officer will also provide an effective management tool for the administration of his recreation program. An effective analysis could be made of budgeted costs and actual costs, and necessary corrective action could be taken when appropriate. The centralized accounting system and its financial reports have already been designed to provide this analysis.

The Chief of Naval Personnel should implement centralized management and control of Navy recreation funds as soon as feasible, and distribute funds based upon program needs rather than generated profit. More effective utilization of total available recreation funds will result from this management improvement measure.

APPENDIX

SPECIAL SERVICES QUESTIONNAIRE

An unofficial study is being conducted of the management of Navy Recreation funds. This study is being undertaken with the cooperation of Special Services Division, BuPers, and is part of a graduate school project by a student at the Navy Graduate Financial Management Program at The George Washington University. It is independent of a more broad study currently being conducted by an official Navy study group. The results of this unofficial study will be made available to the Special Services Division of the Bureau of Naval Personnel.

It is requested that the enclosed questionnaire be completed with the best information readily available. Detailed research is not intended. Use best estimates where actual data is not readily available.

Return of the completed questionnaire is requested within five working days of its receipt. Please use the special return envelope provided.

Identification of your activity may be entered on the questionnaire, but is not required for the purposes of this study.

SPECIAL SERVICES QUESTIONNAIRE*

A. MANAGEMENT OF RECREATION FUNDS

1. Indicate the rank, rate, or civil service grade of the Special Services Officer.

2. Indicate the number of assistants assigned for overall administration of the Special Services program.

   Full time_____ Part time_____

3. Indicate the number of personnel employed in financial accounting functions.

   Civilian____ Full time____ Part time____

   Military____ Full time____ Part time____

4. Briefly describe the budget process utilized in management of the recreation funds (if none, so state).

5. Briefly describe the expenditure control procedure utilized.

6. Indicate any decrease (or increase) in the number of man-hours required for the accounting function since the implementation of the central accounting system at BUPERS NAFAU in Brooklyn.

7. Do the reports prepared by BUPERS NAFAU contain adequate information in an understandable form?

8. Is the Detail Ledger easily understood?

9. Do you prepare any additional financial reports locally?

   If "Yes," comment on need for these additional reports and return one copy of each type of report with this questionnaire.

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*A number of blank lines which were included on the mailed questionnaire for responses have been omitted from this sample.

10. Are the instructions contained in the accounting handbook (NAVSO P-2460) adequate?

11. Comment on the central accounting system. Include constructive criticism, suggestions for improvement, and any changes desired in current reports or additional reports desired. (Use reverse of this sheet if additional space is required).

12. Comment on the Central Fund maintained by BUPERS for loans and grants for approved special projects.

13. Comment on the administration of EM Club profits by the Navy Ships' Store Office for use in providing EM Club entertainment and EM Club rehabilitation.

B. ADEQUACY OF RECREATION FUNDS

1. Indicate the annual total receipts into the Recreation Fund for the fiscal year ended 15 June 1967.

a. From Navy Exchange profits $_____

b. From Special Services activities:

Movies	$_____
Bowling	_____
Golf	_____
Hobby Shops	_____
_____	_____
_____	_____
Total from Special Services activities	$_____

c. From all other sources:

_____ $_____

_____ $_____

_____ _____

Total from all other sources $_____

Grand Total of all Receipts $_____

2. Indicate the number of personnel supported from your station recreation funds on June 15, 1967 (one day totals).

   a. Total number of military personnel permanently attached to station._____

   b. Estimated number of military personnel from other ships or stations utilizing your station facilities (explain briefly).

   c. Estimated number of transient military personnel utilizing your facilities (explain briefly).

   d. Estimated number of dependents and retired military personnel utilizing your facilities (explain briefly).

3. Indicate types of recreation activities maintained and amount of fee charged for use of the facilities (indicate "None" if no fee is charged).

	Yes	No	Fee
Movies			
Bowling			
Golf			
Swimming Pool-Indoor			
Swimming Pool-Outdoor			
Billiards			
Fishing Equipment			
Boats (any type)			
Hunting Equipment			
Camping Equipment			
Horseback Riding			
Firing ranges			
Picnic Area			

	Yes	No	Fee
Hobby Shops:			
(1) Automotive			
(2) Wood working			
(3) Photography			
(4) Electronics			
(5) Art Crafts			
(6)			
(7)			

4. Indicate the organized sports which are supported from recreation funds:

5. Indicate additional programs or facilities which would be maintained if additional funds were available.

6. Comment on any aspect of the management of Navy recreation funds not covered by this questionnaire.

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